

# CITY OF FALLS CHURCH, VIRGINIA COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2012



# **CITY OF FALLS CHURCH, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2012**



**PREPARED BY THE DIVISION OF FINANCE  
RICHARD A. LACONDRE, MPA, CFO/DIRECTOR OF FINANCE  
MELISSA ANN C. RYMAN, CPA, DEPUTY DIRECTOR OF FINANCE**

### **Policy of Nondiscrimination on the Basis of Disability**

The City of Falls Church does not discriminate on the basis of disability in its employment practices or in its admission to, access to, or operation of its services, programs, or activities. Cindy Mester, 300 Park Avenue, Virginia, 22046, has been designated to coordinate compliance with the ADA non-discrimination requirement.

# CITY OF FALLS CHURCH, VIRGINIA

## COMPREHENSIVE ANNUAL FINANCIAL REPORT

### FOR THE FISCAL YEAR ENDED JUNE 30, 2012

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**INTRODUCTORY SECTION**





# CITY OF FALLS CHURCH

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December 20, 2012

City Council  
City of Falls Church  
Mayor and Members of the Council

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Falls Church, Virginia (the City) for the fiscal year ended June 30, 2012, in accordance with the *Code of Virginia*. The financial statements included in this report conform to accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB). Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position of the governmental activities, business-type activities, aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended. All necessary disclosures have been included to enable the reader to gain the maximum understanding of the City's financial affairs.

The letter of transmittal is traditionally addressed to the governing or legislative body. We believe that the CAFR should be management's report to constituents, oversight bodies, resource providers, investors and creditors. This letter is addressed to you and by wide circulation it is also directed to the citizens of the City of Falls Church and all other interested readers. In addition to complying with legal requirements, this letter, management's discussion and analysis (MD&A), the financial statements, supplemental data, and the statistical tables have been prepared to provide full financial disclosure.

The report consists of management's representations concerning the finances of the City. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in the report. To provide a reasonable basis for making these representations, management has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with Generally Accepted Accounting Principles (GAAP). As management, we assert that to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City's financial statements have been audited by Brown, Edwards and Company, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements for the fiscal year ended June 30, 2012 are free of material misstatement. The independent auditor's report is presented as the first component of the financial section of this report.

Our CAFR is divided into three sections: introductory, financial and statistical. The introductory section includes this letter of transmittal, a list of the City's principal elected and appointed officials, and the organizational chart. The financial section includes the Independent Auditors' Report, MD&A, Basic Financial Statements, including the notes, and Required Supplementary Information. In addition, the financial section contains other supplemental data, consisting of combining, individual fund, and component unit financial statements and schedules. The statistical section contains selected financial and demographic information, generally presented on a multi-year basis. The Single Audit Report, which is required for federal grant recipients, is issued separately.

All the financial activities of the reporting entity are included within this report. As used here, the reporting entity comprises the primary government (City of Falls Church as legally defined) and its component units. Under GASB pronouncements, component units are

legally separate entities for which the primary government is financially accountable. The component units of the City (the City of Falls Church Public School Board and the Falls Church Economic Development Authority) are discretely presented component units. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government.

## **GOVERNMENTAL STRUCTURE**

The City is located in the northeastern corner of Virginia and encompasses an area of 2.2 square miles. The City is part of the Washington, D.C. metropolitan area, which includes jurisdictions in Maryland and Northern Virginia, and the District of Columbia.

The City is a municipal corporation incorporated as an independent city in 1948 under the laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government. The City Council (the Council) is comprised of seven members elected at-large for four-year staggered terms. Every two years the Council elects one member to serve as Mayor and one to serve as Vice-Mayor. The Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the City's manager, attorney and clerk. The Council appoints a City Manager to act as the administrative head of the City. The City Manager serves at the pleasure of the Council, carries out the policies established by the Council, and directs business and administrative procedures.

The City provides a full range of services, including police and fire protection; the construction and maintenance of highways, streets and other infrastructure; and recreational activities and cultural events. The City also provides water and sanitation services to its residents. In addition, it provides water to a portion of Fairfax County. The water and sewer functions are included as business-type activities in the City's financial statements. The City is financially accountable for the legally separate school system, which is reported as a component unit within the financial statements.

## **ECONOMIC CONDITION AND OUTLOOK**

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the city operates.

### **The Local Marketplace**

The City of Falls Church has benefited from an unprecedented wave of new development and investment that has occurred along several of its primary commercial corridors starting with the Broadway project in 2002. The Byron, the Spectrum, the Read Building, and Pearson Square followed the Broadway and its formula of higher-density, mixed-use development. Collectively these projects produce about \$5.2 million in gross revenue and \$2.5 million in net revenue for the city annually.

Commercial space in the Broadway, Byron, Read Building, and Pearson Square is mostly filled or in transition to new uses, while each of these buildings is at full residential occupancy. The Tax Analysts Building, a physically detached component of the Pearson Square project on South Maple Avenue, contains 85,000 square feet of office and retail space that is 95 percent occupied. It was the largest office building constructed in the city in 20 years when it was delivered to market in 2008. Tax Analysts, a nonprofit publisher of printed and online material, owns its headquarters building and is one of the city's largest employers.

Commercial space in the mostly residential Pearson Square building next door is anchored by Falls Church ArtSpace and Edwards Jones. Body Dynamics, a physical therapy and wellness center, opened in 2012 and occupies much of the remaining space on the ground level of the building.

The Spectrum has continued to make steady progress in the sale of its residential units. All but one of the 189 Spectrum condos are sold or are under contract in a building delivered to the market in early 2008 when regional condo supply greatly exceeded condo demand. The Spectrum also contains 32,000 square feet of condo office, which is three-quarters occupied. Mad Fox Brewery, Moby Dick's House of Kabobs, and For Eyes anchor the building's retail space, while Sweet Frog Frozen Yogurt and Beadazzled, a retailer relocating from Tysons Corner, have leased space and will open soon. Mad Fox, a craft microbrewery and restaurant, is a popular regional draw and is the highest tax revenue producing restaurant in the city.



## Office Trends

Through the third quarter of 2012 the direct vacancy rate for office space in the greater Falls Church submarket was 11.9 percent, according to Jones Lang LaSalle (JLL). Inside the city, most of the available office space is located in older buildings, some of which are targeted for renovation or are impacted by site redevelopment plans. The Falls Church submarket vacancy rate compares favorably with a direct vacancy rate in the overall Northern Virginia (NOVA) office market of 15.3 percent through third quarter 2012, again according to research by JLL.

The commercial real estate company Colliers International (CI) reported in November 2012 that the NOVA office market is in a "holding pattern" and that in Q3 of 2012 "businesses were hesitant to act until the future appeared more certain" following the national election and with concerns over sequestration and resolution of the 'fiscal cliff' crisis. "Total vacancy in NOVA edged up...during the third quarter, continuing the trend of remaining in the low-to-mid teens over the past three years. The average rental rate continued its upward swing during the third quarter of 2012, finishing at its highest rate since year-end 2008," according to CI.

However, the CI report said that "rates are expected to level off over the next 12 months as more vacant space floods the [regional] market." "NOVA has been the most heavily impacted by federal spending in the region," especially "big businesses and those contractors connected to government." Looking forward, CI observes that the office industry in NOVA "continues to gear up for the next chapter in commercial real estate: walkable urbanism; evident through the large amount of development and variety in the area." Mixed-use projects already completed and pipeline projects in Falls Church, as detailed below, are just such examples of infill, walkable urbanism on a scale appropriate to the city.

There is currently the lowest supply of new office buildings in NOVA in the last 18 years and 56 percent of the inventory of office buildings is more than 20 years old. There is a premium for quality new buildings inside the Beltway if financing can be obtained in a tight credit market. These were observations made by speakers at a regional economic forecast event held by the National Association of Industrial and Office Properties in early 2012.

## Retail Trends

Occupancy rates in older properties are still holding strong for retail tenants. As space occasionally becomes available it has quickly backfilled, and at higher rent. Restaurants have been the source of greatest demand for space in the city. In the past several years Pizzeria Orso, Chipotle, Pisano's, Sfizi, Famous Dave's Barbeque, Honeybaked Ham, Mad Fox, Space Bar, Moby Dick's, and others have opened in Falls Church, bolstering the city's meals tax revenue. Leases have been signed for Caribbean Plate, Dunkin' Donuts, Curry Mantra 2, and Burger 7, all of which will open in early 2013.

In 2012, California-based 24-Hour Fitness opened its second facility in the Washington, DC region in Falls Church. The company invested more than \$7 million to convert a former Syms store into a state-of-the-art fitness and training center. Falls Church Cross Fit backfilled light industrial space vacated in 2012 on the city's north side. Ortho Urgent Care will open in the Broadway in space previously occupied by Hollywood Video. Dominion Jewelers is transitioning from tenant to owner/operator in a building nearing completion on W. Broad Street that will function as its headquarters and store, with additional office space available for lease.

## Pipeline Projects

After several years delay due to the Great Recession and a tight credit market, the Hekemian Company is mid-way into construction of a \$51 million mixed-use project in the 400 block of North Washington Street. The "Northgate" is located within close proximity to the East Falls Church Metro Station and the developer will use that advantage to market its 105 residential units, office and retail space. Delivery of the Northgate is expected in late 2013.

Ground has been broken for a 110-room Hilton Garden Inn hotel in the 700 block of W. Broad Street. The \$18 million hotel was approved by the city in 2011 and the franchisee recently obtained financing and favorable bids to move to the construction phase of the project. Completion is expected in early 2014.

The Flower Building, located in the 800 block of W. Broad Street, was completed in 2009 and is fully occupied with a mix of all-commercial uses. The 44,000-square-foot office and retail building houses the Falls Church U.S. Postal Service customer center, two restaurants, and multiple office tenants. This building is an example of infill development made possible by the spinoff effect of larger

mixed-use projects that have created density, as well as greater consumer and office tenant interest throughout the city's commercial districts.

Flower Building developer, the Young Group, has purchased a property at 300 S. Washington Street to rehabilitate and re-market from marginal commercial uses to restaurant and fitness facilities. Across the street, at 101 E. Annandale Road, a commercial building has been rebuilt following a fire in 2010. Leases have been signed for anchor office and restaurant tenants in the building.

Land use entitlement applications for three major projects were filed with the city in 2012. Rushmark Development Company seeks to build a \$106 million mixed-use development at 301 W. Broad Street featuring a Harris Teeter grocery store, 294 small apartments, and underground parking. Lincoln Property Company has applied to build a \$66 million mixed-use project in the 500 block of S. Washington Street featuring 224 small apartments, 40,000 square feet of commercial space, and underground parking. The owner of a small and aging office building at 400 N. Washington Street seeks to replace the existing structure with a \$28 million, 110,000-square-foot office and retail building with underground parking as soon as market conditions support the investment. The site is within easy walking distance of the East Falls Church Metro Station, where the new Silver Line will connect with the Orange Line in 2013.

Over the past year there has been intense activity by investors seeking land assembly and higher density development opportunities in Falls Church. The multi-family residential market is very strong for new rental housing, especially smaller units targeted to young professionals as the Washington, DC area continues to add jobs and attract a workforce from outside the region. The city aggressively seeks to capture investment and new development with the right mix of uses to strengthen, broaden and balance its tax base.

### **The Eden Center**

One of the most remarkable commercial success stories in Falls Church and, indeed, the metropolitan Washington region, is the Eden Center on Wilson Boulevard. The center is Northern Virginia's premier Asian shopping destination, with over 130 businesses. Its Vietnamese restaurants, eclectic array of shops, vendors and cultural events regularly draw chartered buses from surrounding states and Canada. Owners of the center have signed a lease with Good Fortune, a New York-based Asian grocery store, to occupy 43,000 square feet in space previously leased to defunct National Wholesale Liquidator's and vacant for several years.

### **The BJ's Success Story**

BJ's Wholesale Club opened its 87,000-square-foot Falls Church store in fall 2010. It signed a 20-year lease on an eight-acre former light industrial site on Wilson Boulevard. This deal was facilitated by an agreement between the city and developer JBG Rosenfeld Retail to share a portion of taxes generated by the new store over a 12-year period. It was the second largest retail lease signed in the entire Washington, DC region in 2009. Sales performance through June 2012 has been closely followed and the Falls Church BJ's has proven consistent with initial revenue projections, now ranking second only to Giant grocery in sales tax revenue for the city.

### **Acknowledgements**

The preparation of this report would not have been possible without the efficient and dedicated services of the entire staff of the administration department along with staff from the City Manager's office. We would like to express our appreciation to all members of the departments who assisted and contributed to the preparation of this report. In addition, we acknowledge the cooperation and assistance of each City department throughout the year in the efficient administration of the City's financial operations.

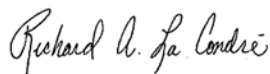
We would like to give special recognition to Melissa Cabacar-Ryman, the City's Deputy Director of Finance.

This CAFR reflects our commitment to the citizens of Falls Church, the City Council, and all interested readers of this report to provide information in conformance with the highest standards of financial reporting.

Respectfully submitted,



F. Wyatt Shields  
City Manager



Richard A. LaCondre, MPA  
Chief Financial Officer

# CITY OF FALLS CHURCH, VIRGINIA

## DIRECTORY OF OFFICIALS

AT JUNE 30, 2012

### CITY COUNCIL

Nader Baroukh, *Mayor*  
David E. Snyder, *Vice Mayor*  
Johannah Barry  
Robin S. Gardner  
Ira Kaylin  
Ronald Peppe  
Lawrence Webb

### CITY OFFICIALS

F. Wyatt Shields, *City Manager*  
Cindy L. Mester, *Assistant City Manager*  
Richard A. LaCondre, *Acting Chief Financial Officer*  
John Foster, *City Attorney*  
Kathleen C. Buschow, *City Clerk*  
Catherine Kaye, *City Treasurer*  
Thomas D. Clinton, *Commissioner of Revenue*  
S. Stephen Bittle, *Sheriff*  
Lois Berlin Ed.D., *Superintendent of Schools*

## CITIZENS



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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION**



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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION  
INDEPENDENT AUDITORS' REPORT**





## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council and School Board  
City of Falls Church, Virginia

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Falls Church, Virginia (the "City"), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

**In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Falls Church, Virginia, as of June 30, 2012, and the respective changes in financial position and cash flows where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.**

**The City has agreed in principle to the sale of substantially all of its water system, reported in the water fund. The sale is subject to among other things approval through referendum by City residents. The possible impact to the City's financial statements is outlined in Note VII and is expected to result in a significant reduction in the portion of the City's net assets dedicated to water utility, if consummated.**

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the other required supplementary information as listed on the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
December 20, 2012

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION  
MANAGEMENT'S DISCUSSION AND  
ANALYSIS**



**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

This section of the City of Falls Church, Virginia's (the City) Comprehensive Annual Financial Report (CAFR) presents our discussion and analysis of the City's financial performance during the fiscal year that ended on June 30, 2012.

We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, and the basic financial statements and related notes, which are also contained in this CAFR.

**FINANCIAL HIGHLIGHTS**

**HIGHLIGHTS FOR GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and accrual basis of accounting.

- The City's total net assets (assets less liabilities) on a government-wide basis were \$151.8 million at June 30, 2012. Of this balance, \$148.6 million is the Primary Government's and \$3.2 million is the component units'.
- For fiscal year 2012, taxes and other revenues of the City's governmental activities amounted to \$67.6 million and expenses and transfers amounted to \$59.8 million, which resulted in an increase in net assets for the City's governmental activities of \$7.8 million.
- Revenues of the City's business-type activities were \$27.7 million, and expenses were \$22.3 million, which resulted in an increase in net assets for the City's business-type activities of approximately \$5.4 million.
- In November 2012, the City, Fairfax Water and Fairfax County, agreed in principle, to sell the City's water utility to Fairfax Water. The agreement is still subject to due diligence process and voter referendum by the City's citizens. Additional information regarding this sale is included in Note VII.

**HIGHLIGHTS FOR FUND FINANCIAL STATEMENTS**

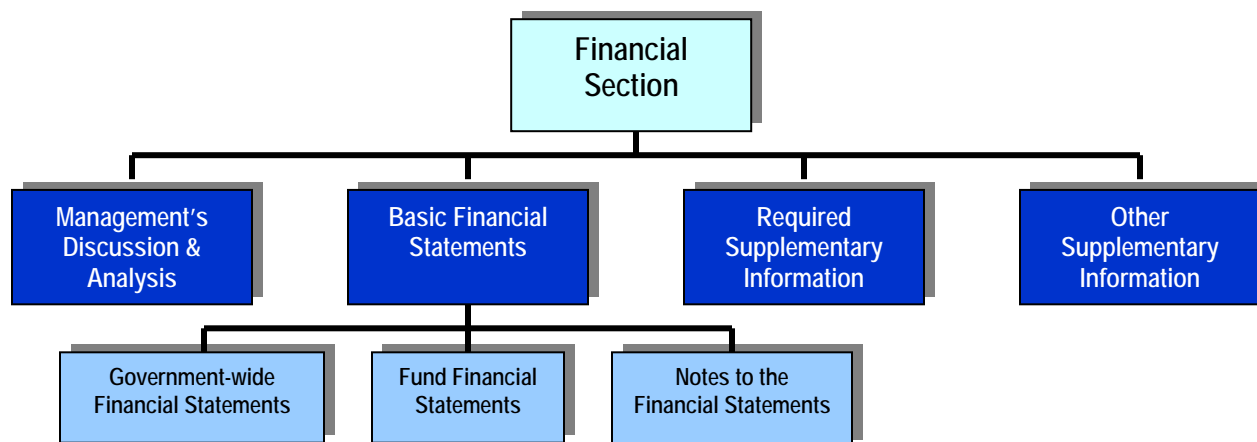
The fund financial statements provide more detailed information about the City's most significant funds using the current financial resources measurement focus and modified accrual basis of accounting for the City's governmental funds. The City's proprietary funds, the Water and Sewer funds, are also presented in the fund financial statements but are presented using the economic resources measurement focus and the accrual basis of accounting, the same basis of accounting used to prepare the government-wide financial statements.

- The City's governmental funds reported revenues and other financing sources in excess of expenditures and other financing uses of \$13.8 million for the fiscal year.
- The City's General Fund reported a fund balance of \$14.9 million at June 30, 2012, an increase of \$7.0 million from June 30, 2011. The FY2012 budget had programmed a restoration of fund balance of \$2.3 million. The City's revenues for taxes came in at \$2.7 million higher than expected, in particular for sales, business licenses, bank stock taxes, personal property and real estate taxes. This is net of \$933 thousand of real estate taxes that the City Council voted to return to taxpayers in December 2012.
- The City's Capital Projects Fund reported an increase in fund balance of \$6.8 million, resulting in a balance of \$7.8 million at June 30, 2012. This increase is due to issuance of bonds for capital projects that have not yet been spent.
- The City's Water fund reported an increase in net assets of approximately \$5.2 million and the City's Sewer fund reported an increase of \$161 thousand in 2012. In FY2012, the Water Fund continued to make improvements to the water system and invested \$3.3 million towards water main replacements, and contributions to the Department of Army Corps of Engineers to upgrade facilities at the Washington Aqueduct. The Sewer fund also continued to contribute to Arlington County and Fairfax County towards the upgrade of their sewer treatment plants to bring them in compliance with current EPA standards, as well as rehabilitate existing sewer mains. In FY2012, those contributions amounted to \$486 thousand and \$260 thousand to Arlington County and Fairfax County, respectively. The Arlington project is almost completed, while the Fairfax County project is still several years away from completion.

CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

## OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this annual report consists of four parts: (1) management's discussion and analysis (MD&A) presented here, (2) basic financial statements and related notes, (3) required supplementary information (RSI), and (4) other supplementary information.



The City's basic financial statements consist of two kinds of statements, each with a different view of the City's finances. The government-wide financial statements provide both long and short-term information about the City's overall financial position. The fund financial statements focus on the individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements. The basic financial statements also include notes to explain information in the financial statements and provide more detailed data.

The statements and notes are followed by required supplementary information that contains data pertaining to the retirement systems. In addition to these required elements, the City includes other supplementary information such as combining and individual fund statements to provide details about the fiduciary funds, and component units.

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements report information about the City as a whole using the economic resources measurement focus and the accrual basis of accounting, which are similar to those used by private-sector businesses. In addition, they report the City's net assets and how they have changed during the fiscal year.

The first government-wide statement – the *Statement of Net Assets* – presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the City is improving or deteriorating. Additionally, non-financial factors, such as a change in the City's property tax base or the condition of the City facilities, should be considered to assess the overall health of the City.

The second statement – the *Statement of Activities* – presents information showing how the City's net assets changed during the fiscal year. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when the cash is received or paid. This statement also highlights the extent to which City programs are able to cover their costs with user fees, contributions, and grants as opposed to being financed with general revenues of the City.

The government-wide financial statements are divided into three categories, as follows:

Governmental Activities – Most of the City's basic services are reported here, including education; public safety; public works; judicial administration; health and welfare services; community development; economic development; parks, recreation, and

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

cultural programs; and general administration. These activities are financed primarily by property taxes, other local taxes, and federal and state grants. Included in the governmental activities are the governmental funds.

Business-type Activities – The City's business-type activities (the Water and Sewer funds) are reported here.

Discretely Presented Component Units – The City includes two other entities in its financial reporting entity: City of Falls Church Public School Board (School Board), and the Falls Church Economic Development Authority (EDA). Although legally separate, these component units are important because the City is financially accountable for them.

## **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the City's most significant funds. Fund accounting is used to keep track of the specific sources of funding and spending for particular purposes, as well as ensure and demonstrate compliance with finance-related legal requirements. The City has the following three types of funds:

Governmental Funds – Most of the City's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can readily be converted to cash, flow in and out and (2) the year-end balances that are available for spending. The governmental funds financial statements provide a detailed short-term or "current financial resources" view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term or "economic resources" focus of the government-wide financial statements, additional information is provided with the fund financial statements to explain the relationship (or differences). The General Fund is the main operating fund of the City and consequently, the largest of the governmental funds. The other two governmental funds of the City are the capital projects fund and the affordable dwelling units fund. The capital projects fund is also considered a major governmental fund.

Proprietary Funds – Proprietary funds, which consist of two enterprise funds, are used to account for operations that are financed and operated in a manner similar to private business enterprises in which costs are recovered primarily through user charges. Proprietary fund financial statements, like the government-wide financial statements, provide both long and short-term financial information. The City's enterprise funds, the Water and Sewer funds, are the City's business-type activities reported in the government-wide statements. The fund financial statements provide more detail and additional information, such as cash flows, for the Water and Sewer funds.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support City programs. The City's fiduciary funds consist of post-retirement trust funds and agency funds. The post-retirement trust funds are used to account for the assets held in trust by the City for the employees and beneficiaries of its defined benefit pension plans – the Basic Pension Plan and the Police Pension Plan – as well as other post-employment benefits, primarily health insurance and life insurance for City and School Board employees. The agency funds are used to account for monies received and disbursed on behalf of the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy.

## **FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

A comparative analysis of government-wide financial information is included in this report.

## **STATEMENT OF NET ASSETS**

The following table presents a summary of the net assets of the primary government as of June 30, 2012 and 2011:

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

<b>Summary of Net Assets</b> <b>As of June 30, 2012 and 2011</b> <b>(\$ In Thousands)</b>				
	<b>2012</b>		<b>2011</b>	
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Governmental Activities</b>	<b>Business-Type Activities (As Restated*)</b>
<b>Assets:</b>				
Current and other assets	\$ 60,027	\$ 43,322	\$ 43,448	\$ 42,380
Capital assets, net	61,677	97,052	62,812	95,077
<b>Total assets</b>	<b>121,704</b>	<b>140,374</b>	<b>106,260</b>	<b>137,457</b>
<b>Liabilities:</b>				
Other liabilities	34,997	4,141	32,433	4,469
Long-term liabilities	39,730	34,616	34,647	36,759
<b>Total liabilities</b>	<b>74,727</b>	<b>38,757</b>	<b>67,080</b>	<b>41,228</b>
<b>Net Assets:</b>				
Invested in capital assets, net of related debt	31,282	71,450	30,403	67,032
Restricted for other projects	111	-	153	-
Unrestricted	15,584	30,167	8,624	29,197
<b>Total net assets</b>	<b>\$ 46,977</b>	<b>\$ 101,617</b>	<b>\$ 39,180</b>	<b>\$ 96,229</b>

Current and other assets for governmental activities increased by \$16.6 million primarily due to three items: (1) higher than expected receipts for taxes and under-spending of appropriated funds, (2) appropriation by City Council to increase fund balance by \$2.3 million, and (3) borrowing for capital projects that have not yet been spent. Net capital assets for governmental activities decreased by \$1.1 million during FY2012 mainly due to depreciation of \$2.9 million exceeding new investments of \$1.8 million. Current and other assets for business-type activities increased by \$2.2 million during FY2012 mainly as a result of higher than expected receipts from commodities and underspending of expenses. Net capital assets increased by \$2.0 million mainly due to investments in improvements to water mains, water tanks, sewer mains, plant upgrades at Washington Aqueduct, and at the Arlington County and Alexandria Sanitation Authority sewer plants, totaling \$5.8 million. The City's water system also received contributed assets from developers in the system in the amount of \$1.3 million.

Other liabilities for governmental activities increased by \$2.6 million mainly due to increases in unearned tax revenue and tax rebate liability. Unearned taxes increased mainly due to increase in tax rates and assessed values for the real estate tax due on December 5, 2012 and personal property tax due on October 5, 2012. The City Council approved a rebate of \$933 thousand in real estate taxes to taxpayers. Long-term liabilities for governmental activities increased by \$5.1 million due to the issuance of new debt, while business-type activities decreased by \$2.2 million mainly due to principal payments made on debts.

During FY2012, the net assets invested in capital assets, net of related debt, increased for the City's governmental activities by \$879 thousand and increased for the business-type activities by \$4.4 million. The governmental activities' investment in capital investments increased because principal payments on debt and new investment in capital asset exceeded depreciation. The increase for the business-type activities is due to improvements to the City's water and sewer systems, upgrades to treatment plants, and contributions of capital assets from developers.

Unrestricted net assets increased by \$7.0 million for governmental activities due to an appropriation by City Council to reserve \$2.3 million of FY2012 revenues for net assets, as well as revenues received being higher than expected.



CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

STATEMENT OF ACTIVITIES

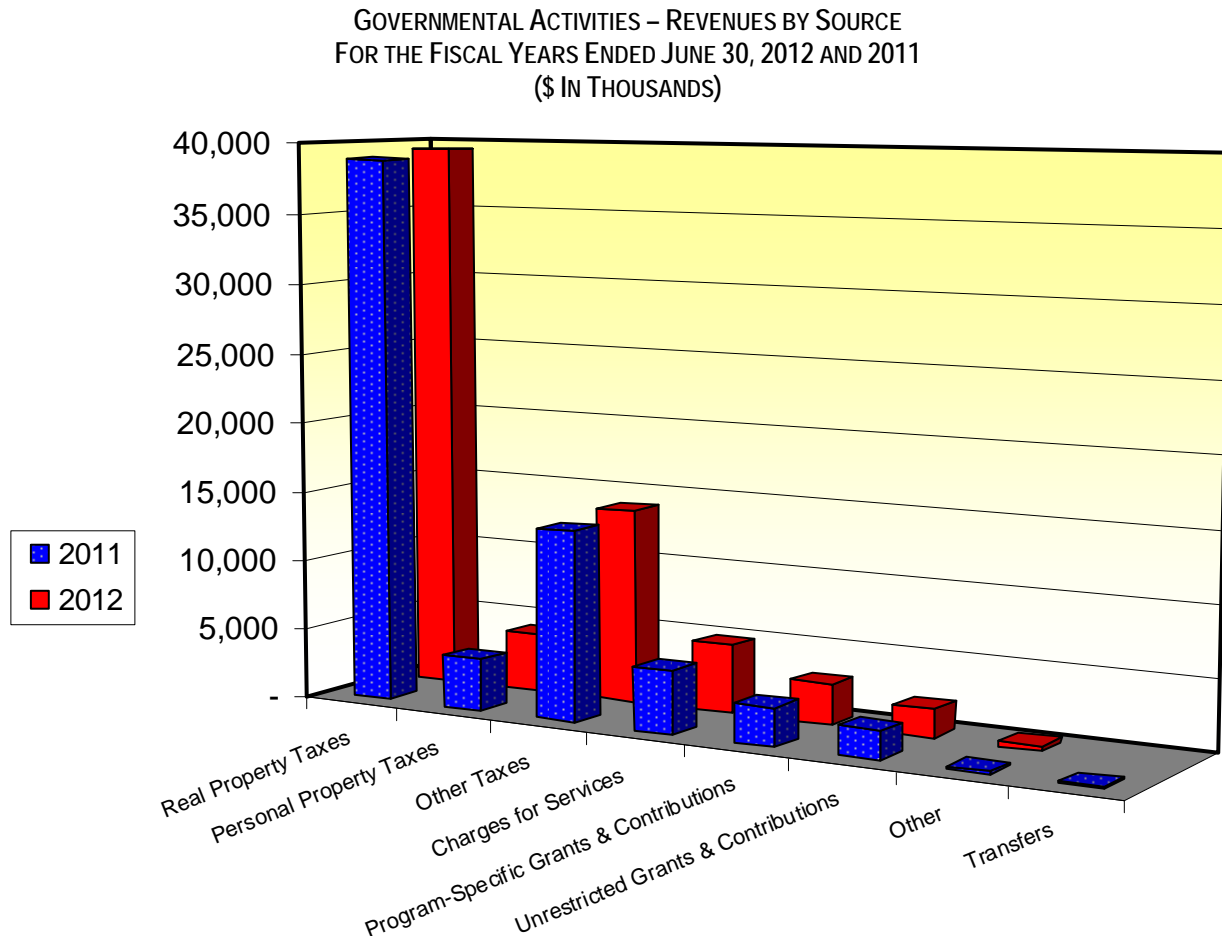
The following table summarizes the changes in net assets for the primary government for the years ended June 30, 2012 and 2011:

Summary of Changes in Net Assets				
For the Fiscal Years Ended June 30, 2012 and 2011				
(\$ In Thousands)				
	2012		2011	
	Governmental Activities	Business-Type Activities	Governmental Activities	Business-Type Activities
Revenues:				
Program revenues:				
Charges for services	\$ 4,903	\$ 25,843	\$ 4,443	\$ 24,354
Operating grants & contributions	2,134	-	2,151	-
Capital grants & contributions	808	1,497	560	2,718
General revenues:				
Real estate taxes	39,382	-	38,879	-
Personal property taxes	4,157	-	3,679	-
Business license taxes, based on gross receipts	3,260	-	3,284	-
Local sales & use taxes	3,899	-	3,620	-
Consumer's utility taxes	2,103	-	2,181	-
Motor vehicle decals	319	-	238	-
Recordation	475	-	372	-
Occupancy, tobacco, & other taxes	3,833	-	3,790	-
Unrestricted grants & contributions	2,021	-	2,021	-
Revenue from use of money and property	106	282	75	213
Other	230	74	111	125
Special item - gain/loss on sale of capital assets	-	-	735	-
Insurance recovery of legal costs, net	-	-	-	-
Total revenues	67,630	27,696	66,139	27,410
Expenses:				
General government administration	4,789	-	4,493	-
Judicial administration	1,611	-	1,532	-
Public safety	9,434	-	8,955	-
Public works	5,337	21,094	5,921	19,090
Health and welfare	2,003	-	2,106	-
Education and payments to schools	29,064	-	29,276	-
Parks, recreation, and cultural	4,392	-	4,449	-
Community development	1,746	-	1,440	-
Economic development	323	-	322	-
Interest expense	1,279	1,065	1,411	538
Total expenses	59,978	22,159	59,905	19,628
Excess/(deficiency) before transfers	7,652	5,537	6,234	7,782
Transfers	150	(150)	90	(90)
Change in net assets	7,802	5,387	6,324	7,692
Net assets, beginning of year	39,175	96,230	32,856	88,538
Net assets, end of year	\$ 46,977	\$ 101,617	\$ 39,180	\$ 96,230

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Governmental Activities**

Revenues and transfers for the City's governmental activities were \$67.6 million for fiscal year 2012 and \$66.3 million for fiscal year 2011. Sources of revenue for fiscal year 2012 and 2011 are comprised of the following items:

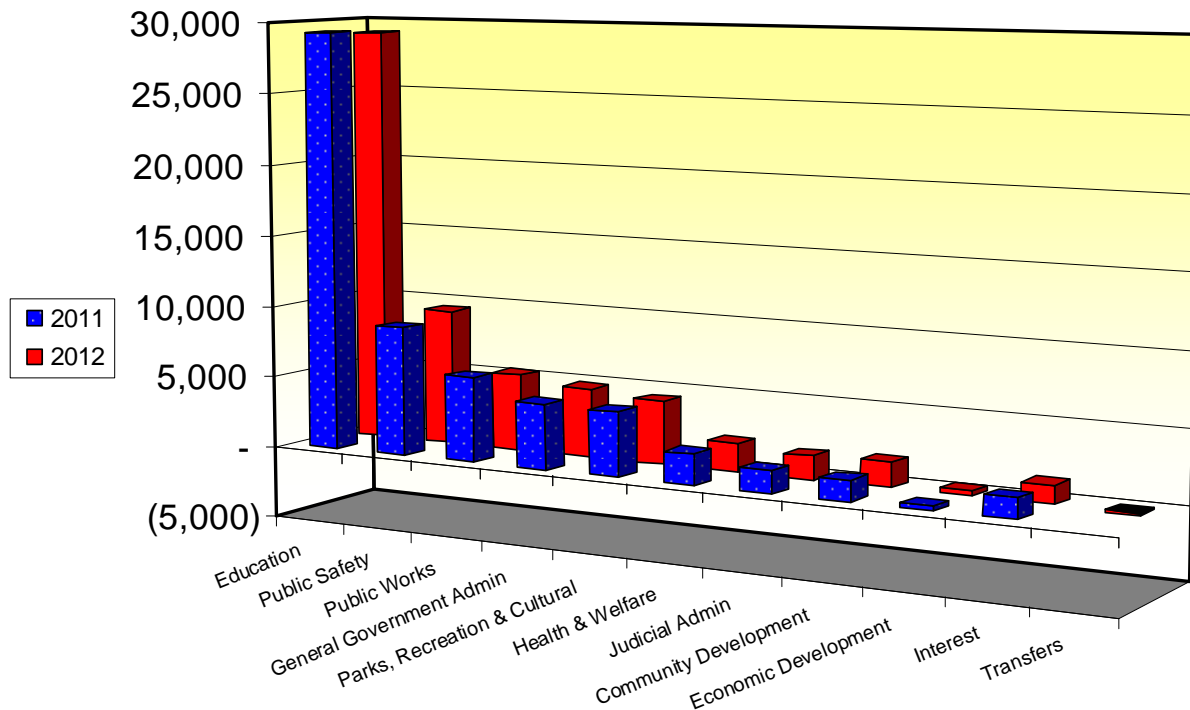


Taxes constitute the largest source of City revenues, amounting to \$57.4 million for fiscal year 2012 and \$56.0 million for fiscal year 2011. Real property taxes (\$39.4 million in fiscal year 2012 and \$38.9 million in fiscal year 2011) represent over 68% of tax revenues in FY2012 and over 69% in FY2011 .

The cost of all governmental activities in fiscal year 2012 was \$60.0 million, and in fiscal year 2011 was \$59.9 million. Education was the City's largest program and highest priority in both fiscal years 2012 and 2011; education expenses totaled \$29.0 million in fiscal year 2012 and \$29.3 million in fiscal year 2011. Public safety expenses represent the second largest expense in both fiscal years, totaling \$9.4 million in fiscal year 2012 and \$9.0 million in fiscal year 2011. Public works expenses totaled \$5.3 million for fiscal year 2012 and \$5.9 million for 2011, representing the third largest expense for the City in both fiscal years.

CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENTAL ACTIVITIES – EXPENSES BY FUNCTION  
FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011  
(\$ IN THOUSANDS)



The following table presents the cost of each of the City's six largest programs – education, public safety, public works, general government administration, health and welfare, and parks, recreation and cultural - as well as each program's net cost (total cost less fees generated by the activities and program-specific intergovernmental aid).

Net Cost of City's Governmental Activities For the Fiscal Years Ended June 30, 2012 and 2011 (\$ In Thousands)				
Functions/Programs	2012		2011	
	Total Cost	Net Cost	Total Cost	Net Cost
Education and payments to schools	\$ 29,064	\$ 29,064	\$ 29,276	\$ 29,276
Public safety	9,434	7,896	8,955	7,940
Public works	5,337	3,131	5,921	4,324
General government administration	4,789	4,349	4,493	4,166
Parks, recreation, and cultural	4,392	2,412	4,449	2,415
Health and welfare	2,003	1,874	2,106	1,989
Other	4,959	3,408	4,705	2,903
Total	\$ 59,978	\$ 52,134	\$ 59,905	\$ 53,013

Some of the cost of governmental activities was paid by those who directly benefited from the programs (\$4.9 million in 2012 and \$4.4 million in 2011) and other governments and organizations that subsidized certain programs with grants and contributions (\$2.9 million

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

in 2012 and \$2.7 million in 2011). The remaining net cost services of the \$52.1 million 2012 and \$53.0 million in 2011 was subsidized by the taxpayers.

The net cost for education and payment to schools is the same as its total cost for the City. Other costs for education as well as program-specific revenues are reported in the component unit School Board.

**Business-type Activities**

The Water Fund recovers its costs primarily through user charges. The Water Fund reported an increase in net assets of \$5.2 million for fiscal year 2012 and an increase of \$6.9 million for fiscal year 2011. In fiscal year 2012, total revenues and capital contributions of the Water Fund were \$24.6 million and total costs were \$19.1 million. In fiscal year 2011, total revenues and capital contributions were \$24.6 million and total costs and transfers were \$17.7 million. Capital contributions in fiscal year 2012 were \$1.3 million and in fiscal year 2011 were \$2.6 million. There was a decrease of \$700 thousand in charges for services primarily due to a 5% decrease in consumption.

The Sewer Fund reported an increase in net assets of \$161 thousand for fiscal year 2012 and an increase of \$813 thousand for fiscal year 2011. In fiscal year 2012, total revenues of the Sewer Fund were \$3.1 million as compared to total costs and transfers of \$2.9 million. In fiscal year 2011, total revenues of the Sewer Fund were \$2.8 million and total costs and transfers were \$2.0 million. The Sewer Fund recovers its costs primarily through user charges.

Highlights of the City's business-type activities for fiscal year 2012 are as follows:

- The Water Fund continues to make improvements to the water supply and distribution system by adding new water mains and replacing older ones, renovating water tanks, and contributing to the cost of upgrades at the Washington Aqueduct. The City invested \$3.3 million in these endeavors.
- Developers added to the distribution system in the amount of \$1.3 million.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

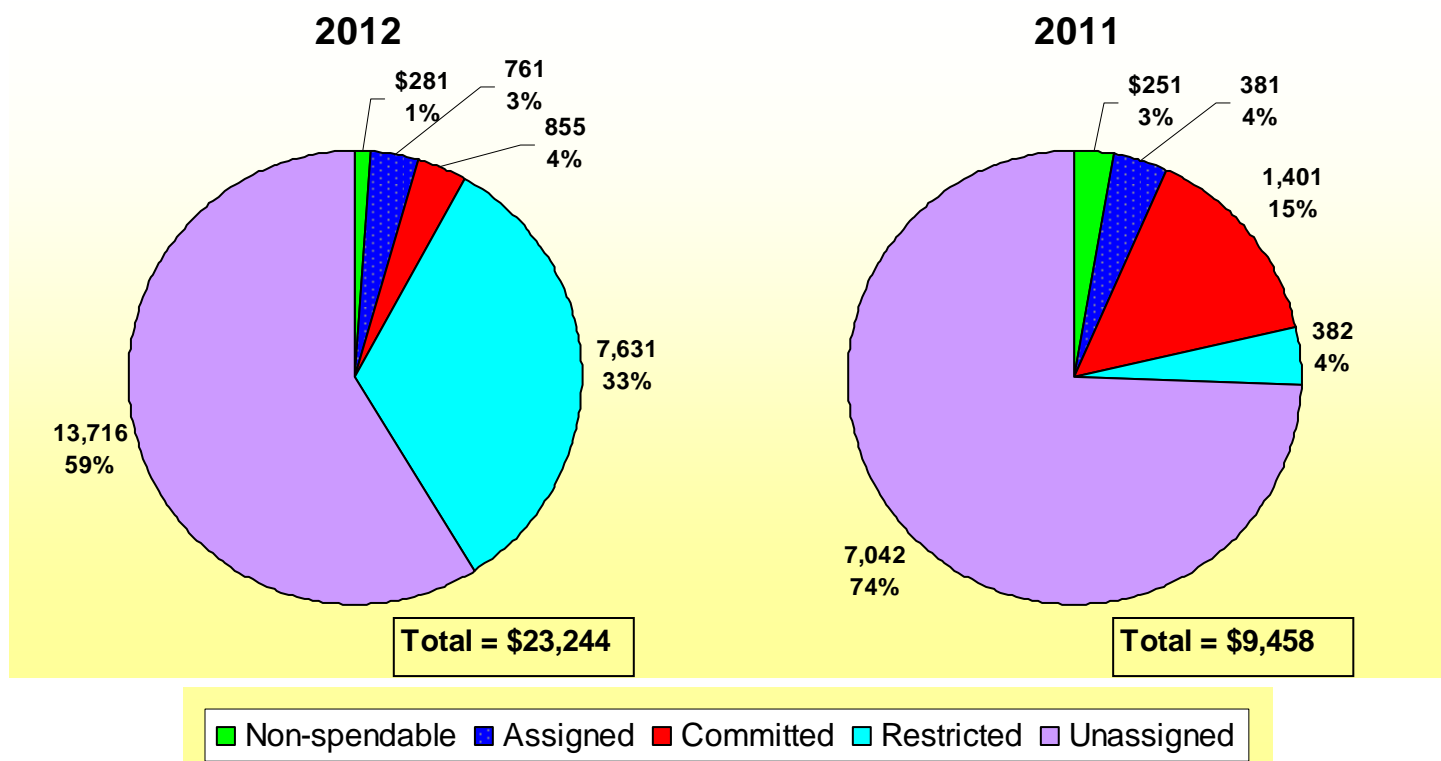
As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

In FY2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This affected the City's naming of its fund balances but did not affect the City's unassigned fund balance (formerly unreserved and undesignated fund balance).

The following chart represents the components of City's governmental fund balances as of June 30, 2012 and 2011.

CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

GOVERNMENTAL FUNDS – FUND BALANCES  
AS OF JUNE 30, 2012 AND 2011  
(\$ IN THOUSANDS)



Overall, the fund balance for all governmental funds increased by approximately \$13.8 million in FY2012 and increased by \$4.1 million in FY2011. In FY2012, total revenues and other financing sources were \$93.0 million and total expenditures and other financing uses were \$79.2 million. Total revenues and other financing sources were \$65.2 million in FY2011 and expenditures and other financing uses were \$61.2 million. Included in FY2012 other financing source was debt issuance of \$24.1 million and in other financing use was \$17.4 million in refunding of debt.

The nonspendable fund balance includes amounts that are not available for spending such as inventory and prepaid expenses. Committed fund balance represents amounts committed by the City Council to capital projects (\$450 thousand in FY2012 and \$996 in FY2011) and to affordable housing (\$406 thousand in FY2012 and \$405 thousand in FY2011). Assigned fund balance represents amounts that were encumbered for various expenditures other than capital projects. Restricted fund balance represents grants and bond proceeds which have not yet been spent for their specified purpose.

The unassigned fund balance represents resources that are available for appropriation.

The City has three governmental funds: (1) the General Fund, (2) the Capital Projects Fund, and (3) the Affordable Dwelling Units Fund.

The General Fund is the main operating fund of the City. The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the Proprietary Funds). The Affordable Dwelling Units Fund accounts for the City's planned investments in affordable housing.

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

The City Council adopted a target range of 12%-17% of General Fund expenditures for unassigned fund balance, with a requirement to meet the 12% minimum balance within 2 years of falling below it, and to meet the 17% balance within 3 additional years. The City's unassigned fund balance dipped below 8% in FY2009 due to shortfall in revenues. In FY2010, the City experienced another shortfall in revenues and also was required to return FY2009 management fee to the Water Fund, causing the fund balance ratio to drop even further. To address the restoration of its fund balance, the City transferred \$4.7 million to the General Fund from the Capital Projects Funds in FY2010. In FY2011 and FY2012, the City Council adopted a budget that included \$1.3 million and \$2.3 million, respectively, to restore the unassigned fund balance. Increased economic activity during FY2011 and FY2012 also added to the City's unassigned fund balance. The ending unassigned fund balance as of June 30, 2012 of \$13.8 million was 22.6% of expenditures.

The following shows the fund balances of these funds as of June 30, 2012 and 2011:

<b>Fund Balances - Governmental Funds</b>								
<b>As of June 30, 2012 and 2011</b>								
<b>(\$ In Thousands)</b>								
	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Affordable Dwelling Unit Fund</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Non-spendable	\$ 281	\$ 251	\$ -	\$ -	\$ -	\$ -	\$ 281	\$ 251
Assigned	761	381	-	-	-	-	761	381
Committed	-	0	450	996	406	405	856	1,401
Restricted	111	247	7,355	-	164	135	7,630	382
Unassigned	13,716	7,042	-	-	-	-	13,716	7,042
<b>Total</b>	<b>\$ 14,869</b>	<b>\$ 7,921</b>	<b>\$ 7,805</b>	<b>\$ 996</b>	<b>\$ 570</b>	<b>\$ 540</b>	<b>\$ 23,244</b>	<b>\$ 9,457</b>

The following shows the changes in the individual fund balances for fiscal years 2012 and 2011:

<b>Changes in Fund Balances - Governmental Funds</b>								
<b>For the Fiscal Years Ended June 30, 2012 and 2011</b>								
<b>(\$ In Thousands)</b>								
	<b>General Fund</b>		<b>Capital Projects Fund</b>		<b>Affordable Dwelling Unit Fund</b>		<b>Total*</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Revenues and other financing sources	\$ 85,204	\$ 65,258	\$ 8,007	\$ 294	\$ 31	\$ 1	\$ 93,042	\$ 65,235
Expenditures and other financing uses	(78,256)	(61,136)	(1,198)	(350)	(1)	-	(79,255)	(61,168)
Changes in Fund Balances	6,948	4,122	6,809	(56)	30	1	13,787	4,067
Fund balance at beginning of year	7,921	3,799	996	1,052	540	539	9,457	5,390
Fund balance at end of year	<b>\$ 14,869</b>	<b>\$ 7,921</b>	<b>\$ 7,805</b>	<b>\$ 996</b>	<b>\$ 570</b>	<b>\$ 540</b>	<b>\$ 23,244</b>	<b>\$ 9,457</b>

\*Transfers between funds have been eliminated in the Total columns.

The City's enterprise funds provide the same type of information found in the government-wide financial statements, as the basis of accounting is the same. Factors concerning finances of the Water and Sewer funds have already been addressed in the discussion of the City's business-type activities.

**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The final amended budget appropriations, which include expenditures and other financing uses, exceeded the original budget by \$19.8 million or 32.5%. \$17.6 million of this was for the refunding of bonds and the rest consisted of carryover of commitments for projects that were not started or completed during FY2011 and additional grants awarded to the City.

The final amended budget revenues and other financing sources were more than the original budget by \$19.1 million or 30.3%. The change is mostly due to the issuance of bonds to refund old bonds and additional grants awarded to the City.

Actual revenues and other financing sources were more than final budget amounts by \$2.8 million or 3.5%, and actual expenditures and other financing uses were \$2.6 million or 3.2% less than final budget amounts. Highlights of the comparison of final budget to actual figures for the fiscal year ended June 30, 2012, include the following:

- Actual total tax revenues were more than budgeted amounts by \$2.7 million. The differences are in several different tax revenues – in real estate, personal property, sales, meals, business licenses and bank stock taxes.
- Actual departmental expenditures were less than budgeted amounts by \$2.3 million. Public Works was below budget by \$800 thousand primarily due to some projects that were not completed and are being carried forward as encumbrances into FY2013, as well as some grants that were not fully expended. Health and Welfare was below budget also largely due to budgeted but unspent grants. In total, for the General Fund, approximately \$574 thousand in unliquidated encumbrances are being carried forward into FY2012.

**CAPITAL ASSETS AND LONG-TERM DEBT**

The City's investment in capital assets as of June 30, 2012 and 2011, amounted to approximately \$158.7 million and \$157.9 million, respectively, (net of accumulated depreciation and amortization) as summarized in the following table:

<b>Capital Assets</b> <b>As of June 30, 2012 and 2011</b> <b>(\$ In Thousands)</b>						
	2012			2011		
	Governmental Activities	Business- Type Activities	Total	Governmental Activities	Business- Type Activities	Total
Land	\$ 8,424	\$ 2,595	\$ 11,019	\$ 8,424	\$ 2,595	\$ 11,019
Construction in progress	819	4,896	5,715	351	23,749	24,100
Buildings and system	63,270	104,751	168,021	63,285	99,911	163,196
Improvements other than buildings	4,817	74	4,891	4,817	74	4,891
Machinery and equipment	11,236	4,049	15,285	10,538	3,585	14,123
Purchased capacity	-	37,095	37,095	-	18,067	18,067
Intangibles	1,479	47	1,526	1,479	47	1,526
Infrastructure	10,047	-	10,047	9,754	-	9,754
Library collections	1,987	-	1,987	2,005	-	2,005
Accumulated depreciation	(40,402)	(56,455)	(96,857)	(37,841)	(52,951)	(90,792)
Total Capital Assets, Net	\$ 61,677	\$ 97,052	\$ 158,729	\$ 62,812	\$ 95,077	\$ 157,889

This year's major capital asset events included the following:

- A majority of the construction for the Washington Aqueduct residuals plant and the Arlington treatment plant were completed during FY2012, thereby reducing construction in progress and increasing purchased capacity.

**CITY OF FALLS CHURCH, VIRGINIA**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

See Note III.D in the notes to the financial statements for additional information pertaining to the city's capital assets.

**LONG-TERM DEBT**

The City maintains the following ratings related to tax-exempt securities; Aa2 from Moody's Investor Services, AA from Standard and Poor's Corporation and AAA from Fitch Ratings.

The City's legal limit for outstanding debt is 10% of taxable assessed real property within the City, which is \$3.3 billion in 2012 and \$3.1 billion 2011. The City's total long-term debt that is applicable to this limit was \$68.5 million as of June 30, 2012 and \$65.2 million as of June 30, 2011, and are well within the limits set by the Constitution of the Commonwealth of Virginia.

The City Council has adopted a policy that sets a limit for outstanding General Fund supported debt at 5% of total taxable assessed value of real property. In addition, annual debt service payments must be less than 12% of annual General Fund expenditures. As of June 30, 2012 and 2011, total debt outstanding was 1.2% and 1.3%, respectively, of taxable assessed value of real property. General Fund debt service payments were 6.7% and 8.4% of General Fund expenditures in FY2012 and FY2011, respectively. Both ratios are below the City's debt limit policy of 12% of General Fund expenditures.

In December 2011 the City issued \$8.57 million in general obligation bonds to fund capital projects in the general government and refund prior debts in the general government and water system. Also in December, the City also issued \$3 million of general obligation bonds through the Virginia Public School Authority under the Qualified School Construction Bond program for the expansion of the Thomas Jefferson Elementary School. In March, the City issued \$15.3 million in general obligation bonds to refund a 2004 general obligation bond of the general government.

The following table shows a summary of the City's outstanding debt as of June 30, 2012 and 2011:

Outstanding Long-Term Debts								
As of June 30, 2012 and 2011								
(\$ In Thousands)								
	2012			2011				
	Govern- mental Activities	Business-Type Activities	Total	Govern- mental Activities	Business-Type Activities	Total		
General obligation bonds issued for:								
Schools	\$ 15,157	\$ -	\$ 15,157	\$ 25,922	\$ -	\$ 25,922		
Community center	1,613	-	1,613	1,629	-	1,629		
Fire station	2,330	-	2,330	2,354	-	2,354		
City hall	1,300	-	1,300	-	-	-		
Open space	307	-	307	409	-	409		
Other	16,933		16,933	1,725		1,725		
Water system improvements	-	17,235	17,235	-	18,225	18,225		
Sewer system improvements	-	6,668	6,668	-	6,825	6,825		
Revenue bonds issued for:								
Sewer system improvements	-	2,483	2,483	-	2,712	2,712		
Note payable issued for:								
Water system improvements	-	3,701	3,701	-	4,374	4,374		
Sewer system improvements	-	3,278	3,278	-	3,468	3,468		
Capital leases and other	457	1,226	1,683	2,415	1,147	3,562		
Total	\$ 38,097	\$ 34,591	\$ 72,688	\$ 34,454	\$ 36,751	\$ 71,205		



**CITY OF FALLS CHURCH, VIRGINIA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

See Note III.F in the notes to the financial statements for additional information relative to the City's long-term debt.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The following economic factors are reflected in the General Fund adopted budget for the fiscal year 2013:

- The percentage change in real property taxes for fiscal year 2012 was projected to be an increase of 4.0% as compared to a 2.2% increase in fiscal year 2011.

Per the fiscal year 2013 adopted budget, revenues are \$69.3 million, a 6.6% increase over the fiscal year 2012 level of \$65 million. Revenue from real property taxes will make up 59.6% of total revenues, as compared to 60.4% in fiscal year 2012. Other taxes account for 24.6% of General Fund revenue in 2011, slightly less than 23.9% in 2012.

In FY2013, there is a slight change in basic plan and police plan required contribution to 16.86% and 30.78% of covered payroll, respectively, as compared to 16.97% and 27.96% in FY2012. Both years include employee contributions of 5.0% and 7.0% for the basic plan and police plan. In September 2011, the City Council passed a resolution changing plan benefits effective for employees hired on or after January 1, 2012. Additional information regarding this change can be found on Note IV.B.1. Contributions to the Virginia Retirement System, which covers Constitutional Officers and the majority of School Division employees, are subject to action by the General Assembly. These contributions are expected to increase over the next several years, however the exact amounts are not known at this time.

Pressures on the City budget due to the uncertainties of the economy and the necessary expenditures required to maintain a safe community will continue to be a challenge.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Falls Church, Division of Finance, 300 Park Avenue, Falls Church, VA 22046.

Respectfully submitted,



Richard A. LaCondre, MPA  
General Manager, Chief Financial Officer

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION  
BASIC FINANCIAL STATEMENTS**



**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
As of June 30, 2012

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development	Total Component Units
<b>ASSETS</b>						
Cash and cash equivalents	\$ 22,029,252	\$ 26,541,452	\$ 48,570,704	\$ 3,756,663	\$ 76,941	\$ 3,833,604
Receivables, net	26,496,612	6,929,046	33,425,658	1,912	21,005	22,917
Internal balances	1,325,188	(1,325,188)	-	-	-	-
Due from fiduciary funds	-	-	-	260,284	-	260,284
Due from primary government	-	-	-	3,636,132	250,000	3,886,132
Due from other governmental units	1,475,560	356,516	1,832,076	376,200	-	376,200
Prepays	73,272	4,906	78,178	192,074	-	192,074
Inventories	207,547	427,993	635,540	-	-	-
Restricted cash and cash equivalents	7,474,771	9,697,891	17,172,662	-	-	-
Deferred OPEB charges	585,000	390,000	975,000	807,000	-	807,000
Deferred bond issuance and refunding costs, net	360,576	299,128	659,704	-	-	-
Capital assets:						
Non-depreciable	9,244,159	7,490,144	16,734,303	1,273,354	517,255	1,790,609
Depreciable, net of accumulated depreciation	52,432,403	89,562,199	141,994,602	1,994,309	-	1,994,309
Total capital assets, net	61,676,562	97,052,343	158,728,905	3,267,663	517,255	3,784,918
Total Assets	121,704,340	140,374,087	262,078,427	12,297,928	865,201	13,163,129
<b>LIABILITIES</b>						
Accounts payable and accrued expenses	2,385,318	3,092,542	5,477,860	4,775,212	500	4,775,712
Tax rebate liability	933,000	-	933,000	-	250,000	250,000
Accrued interest payable	434,215	287,108	721,323	-	-	-
Due to component units	3,886,132	-	3,886,132	-	-	-
Due to fiduciary funds	1,669,471	-	1,669,471	-	-	-
Unearned revenue	24,941,844	290,859	25,232,703	-	-	-
Customer deposits	746,616	470,298	1,216,914	-	-	-
Noncurrent liabilities:						
Deferred rent	-	15,105	15,105	111,950	-	111,950
Amounts due to other governments, payable within one year	47,553	-	47,553	-	-	-
Portion due or payable within one year (see Note III.F)	4,341,589	1,999,543	6,341,132	781,848	-	781,848
Due in more than one year (see Note III.F)	35,340,941	32,601,407	67,942,348	4,087,885	-	4,087,885
Total Liabilities	74,726,679	38,756,862	113,483,541	9,756,895	250,500	10,007,395
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	31,282,109	71,450,170	102,732,279	3,113,925	517,255	3,631,180
Restricted for:						
Other projects	110,929	-	110,929	-	-	-
Unrestricted	15,584,623	30,167,055	45,751,678	(572,892)	97,446	(475,446)
Total Net Assets	\$ 46,977,661	\$ 101,617,225	\$ 148,594,886	\$ 2,541,033	\$ 614,701	\$ 3,155,734

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended June 30, 2012

Net (Expense) Revenue and Changes in Net Assets										
Functions/Programs	Expenses	Program Revenue			Primary Government			Component Units		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	School Board	Economic Development Authority	Total Component Units
Primary Government:										
Governmental activities:										
General government	\$ 4,788,719	\$ 190,067	\$ 249,346	\$ -	\$ (4,349,306)		\$ (4,349,306)			
Judicial administration	1,610,517	1,106,413	300,546	-	(203,558)		(203,558)			
Public safety	9,434,025	1,054,488	324,324	159,120	(7,896,093)		(7,896,093)			
Public works	5,336,869	689,130	928,241	588,458	(3,131,040)		(3,131,040)			
Health and welfare	2,003,105	3,775	124,994	-	(1,874,336)		(1,874,336)			
Education and payment to schools	29,064,131	-	-	-	(29,064,131)		(29,064,131)			
Parks, recreation, and cultural	4,392,338	1,784,380	196,075	-	(2,411,883)		(2,411,883)			
Community development	1,745,896	74,958	10,000	60,193	(1,600,745)		(1,600,745)			
Economic development	323,036	-	-	-	(323,036)		(323,036)			
Interest expense	1,278,045	-	-	-	(1,278,045)		(1,278,045)			
Total governmental activities	59,976,681	4,903,211	2,133,526	807,771	(52,132,173)		(52,132,173)			
Business-type activities:										
Water	19,271,724	22,770,417	-	1,496,722		\$ 4,995,415	4,995,415			
Sewer	2,887,321	3,073,519	-	-		186,198	186,198			
Total business-type activities	22,159,045	25,843,936	-	1,496,722		5,181,613	5,181,613			
Total Primary Government	\$ 82,135,726	\$ 30,747,147	\$ 2,133,526	\$ 2,304,493	(52,132,173)	5,181,613	(46,950,560)			
Component Units:										
School Board	\$ 35,724,264	\$ 2,020,963	\$ 6,060,379	\$ -			\$ (27,642,922)	\$ -	\$ (27,642,922)	
Economic Development Authority	33,624	-	-	-			-	(33,624)	(33,624)	
Total Component Units	\$ 35,757,888	\$ 2,020,963	\$ 6,060,379	\$ -			(27,642,922)	(33,624)	(27,676,546)	
General Revenues:										
Taxes:										
Real property					39,381,606	-	39,381,606	-	-	-
Personal property					4,156,728	-	4,156,728	-	-	-
Business licenses, based on gross receipts					3,259,871	-	3,259,871	-	-	-
Local sales and use					3,899,279	-	3,899,279	-	-	-
Consumer's utility					2,102,986	-	2,102,986	-	-	-
Motor vehicle decals					319,335	-	319,335	-	-	-
Real estate recordation taxes					475,057	-	475,057	-	-	-
Occupancy, tobacco, and other					3,833,289	-	3,833,289	-	-	-
Grants and contributions not restricted to specific programs					2,020,878	-	2,020,878	-	-	-
Revenue from use of money and property					105,827	281,920	387,747	95,197	142	95,339
Payment from primary government					-	-	-	27,663,658	-	27,663,658
Other					229,637	74,474	304,111	82,111	21,005	103,116
Transfers:										
Payments in lieu of taxes					150,000	(150,000)	-	-	-	-
Total General Revenues and Transfers					59,934,493	206,394	60,140,887	27,840,966	21,147	27,862,113
Change in net assets					7,802,320	5,388,007	13,190,327	198,044	(12,477)	185,567
Net Assets - Beginning of Year					39,175,341	96,229,218	135,404,559	2,342,989	627,178	2,970,167
Net Assets - Ending of Year					\$ 46,977,661	\$ 101,617,225	\$ 148,594,886	\$ 2,541,033	\$ 614,701	\$ 3,155,734

**CITY OF FALLS CHURCH, VIRGINIA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Other Governmental Funds (Affordable Dwelling Unit)</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 21,095,163	\$ 363,561	\$ 570,528	\$ 22,029,252
Receivables, net	26,496,611	-	-	26,496,611
Receivable from other governmental units	1,418,297	57,261	-	1,475,558
Due from other funds	1,123,246	201,943	-	1,325,189
Prepaid items	73,272	-	-	73,272
Inventories	207,547	-	-	207,547
Restricted:				
Cash and cash equivalents	119,560	7,355,210	-	7,474,770
Total Assets	<u>\$ 50,533,696</u>	<u>\$ 7,977,975</u>	<u>\$ 570,528</u>	<u>\$ 59,082,199</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 2,212,557	\$ 172,762	\$ -	\$ 2,385,319
Tax Rebate Liability	933,000	-	-	933,000
Deferred revenue	26,216,815	-	-	26,216,815
Customer deposits	746,616	-	-	746,616
Due to fiduciary funds	1,669,471	-	-	1,669,471
Due to component units	3,886,132	-	-	3,886,132
Total liabilities	<u>35,664,591</u>	<u>172,762</u>	<u>-</u>	<u>35,837,353</u>
<b>Fund Balances</b>				
Nonspendable:				
Inventories	207,547	-	-	207,547
Prepaid items	73,272	-	-	73,272
Restricted:				
Capital projects	-	7,355,210	-	7,355,210
Grants	110,929	-	-	110,929
Affordable Housing	-	-	164,187	164,187
Committed				
Capital projects	-	450,003	-	450,003
Affordable Housing	-	-	406,341	406,341
Assigned:				
Encumbrances	574,861	-	-	574,861
School debt service	186,000	-	-	186,000
Unassigned	13,716,496	-	-	13,716,496
Total fund balances	<u>14,869,105</u>	<u>7,805,213</u>	<u>570,528</u>	<u>23,244,846</u>
Total Liabilities and Fund Balances	<u>\$ 50,533,696</u>	<u>\$ 7,977,975</u>	<u>\$ 570,528</u>	<u>\$ 59,082,199</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET ASSETS**  
**As of June 30, 2012**

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Total fund balance, governmental funds	\$ 23,244,846
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Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental fund financial statements, but are reported in the governmental activities of the Statement of Net Assets:

Governmental capital assets	102,078,795	
Less accumulated depreciation	<u>(40,402,233)</u>	61,676,562

Some of the City's receivables will not be collected soon enough to pay for the current period's expenditures and, therefore, are reported as deferred revenue in the funds:

Delinquent property taxes (net of allowances)	956,700
Other taxes	318,275

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds:

General obligation bonds payable	(37,640,183)	
Premium, discounts and refundings, net of accumulated amortization	(913,058)	
Deferred amount on refunding, net of accumulated amortization	803,578	
Compensated absences	(1,932,867)	
Due to other governments not payable in the current period	<u>(47,553)</u>	(39,730,083)

Interest on long-term liabilities is not accrued in the governmental funds, but is recognized as an expenditure when due.

(434,215)

Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities of the Statement of Net Assets.

585,000

Certain costs associated with the sale of bonds use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as deferred charges in the governmental activities of the Statement of Net Assets and are amortized over the life of the bond.

360,576

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Net Assets of Governmental Activities in the Statement of Net Asset	<u><u>\$ 46,977,661</u></u>
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**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2012**

	<u>General Fund</u>	<u>Capital Improvement Project</u>	<u>Other Governmental Funds (Affordable Dwelling Unit)</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 43,870,383	\$ -	\$ -	\$ 43,870,383
Other local taxes	13,868,919	-	-	13,868,919
Permit, privilege fees, and regulatory licenses	634,184	-	-	634,184
Fines and forfeitures	763,353	-	-	763,353
Revenue from use of money and property	104,991	-	836	105,827
Charges for services	2,844,768	-	-	2,844,768
Miscellaneous	174,908	-	30,000	204,908
Gifts and contributions	118,930	100,000	-	218,930
Recovered costs	540,765	-	-	540,765
Intergovernmental:				
Commonwealth	3,909,523	3,691	-	3,913,214
Federal	643,739	253,258	-	896,997
Total Revenues	<u>67,474,463</u>	<u>356,949</u>	<u>30,836</u>	<u>67,862,248</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,439,532	-	-	4,439,532
Judicial administration	1,594,048	-	-	1,594,048
Public safety	9,389,094	-	-	9,389,094
Public works	5,266,144	-	-	5,266,144
Health and welfare	1,992,066	-	499	1,992,565
Education and payments to Schools	27,685,031	-	-	27,685,031
Parks, recreation and culture	4,100,421	-	-	4,100,421
Community development	1,754,043	-	-	1,754,043
Economic development	321,839	-	-	321,839
Capital outlay	-	1,197,634	-	1,197,634
Debt service:				
Principal retirement	2,426,259	-	-	2,426,259
Interest and other fiscal charges	1,649,369	-	-	1,649,369
Total Expenditures	<u>60,617,846</u>	<u>1,197,634</u>	<u>499</u>	<u>61,815,979</u>
Excess (deficiency) of revenues over expenditures	<u>6,856,617</u>	<u>(840,685)</u>	<u>30,337</u>	<u>6,046,269</u>
<b>OTHER FINANCING SOURCES/(USES)</b>				
Transfers from Enterprise Funds	150,000	-	-	150,000
Transfers in/(out)	(200,000)	200,000	-	-
Debt issuance	16,705,000	7,415,000	-	24,120,000
Premiums from issuance of bonds	874,336	35,000	-	909,336
Payment to refunded bond escrow	(17,437,909)	-	-	(17,437,909)
Total Other Financing Sources/(Uses)	<u>91,427</u>	<u>7,650,000</u>	<u>-</u>	<u>7,741,427</u>
Net Change in Fund Balances	6,948,044	6,809,315	30,337	13,787,696
Fund Balances at beginning of year	<u>7,921,061</u>	<u>995,898</u>	<u>540,191</u>	<u>9,457,150</u>
Fund Balances at end of year	<u>14,869,105</u>	<u>\$ 7,805,213</u>	<u>\$ 570,528</u>	<u>\$ 23,244,846</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2012**

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Net change in fund balances - total governmental funds	\$ 13,787,696
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Amounts reported for Governmental Activities in the Statement of Activities (Exhibit III) are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.

Expenditures for capital assets	1,722,505	
Less current year depreciation and amortization	<u>(2,822,033)</u>	(1,099,528)

Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Assets.

3,000

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold.

(30,679)

Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.

Decrease in deferred revenue related to taxes	(199,775)
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The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities. In addition, certain debt-issue related costs and proceeds provide and use current financial resources to governmental funds, however, only a portion of those are recognized as a component of interest expense every year:

Proceeds from issuance of refunding bonds	(16,705,000)	
Proceeds from issuance of bonds	(7,415,000)	
Premiums and discounts from issuance of bonds	(909,336)	
Current period amortization on premiums and discounts on issuance and refunding of bonds	57,149	
Bond issuance costs	311,506	
Current period amortization of bond issuance costs	(17,919)	
Current period amortization of deferred amount on refunding	(83,831)	
Principal payments on bonds and notes payable	2,426,259	
Payment to refund bonds	<u>17,437,909</u>	(4,898,263)

Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

Change in compensated absence liability	(99,580)	
Change in accrued interest liability	104,419	
Change in amounts due to other governments not payable in the current period	<u>235,030</u>	239,869

Change in Net Assets of Governmental Activities in the Statement of Activities	<u>\$ 7,802,320</u>
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The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**GENERAL FUND**  
**For the Year Ended June 30, 2012**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Property taxes	\$ 42,845,518	\$ 43,013,518	\$ 43,870,383	\$ 856,865
Other local taxes	11,997,882	11,997,882	13,868,919	1,871,037
Permit, privilege fees, and regulatory licenses	542,641	542,641	634,184	91,543
Fines and forfeitures	750,000	750,000	763,353	13,353
Revenue from use of money and property	40,000	40,000	104,991	64,991
Charges for services	2,698,195	2,798,195	2,844,768	46,573
Miscellaneous	55,000	60,467	174,908	114,441
Gifts and contributions	5,000	106,440	118,930	12,490
Recovered costs	448,000	538,000	540,765	2,765
Intergovernmental:				
Commonwealth	3,508,877	3,841,174	3,909,523	68,349
Federal	178,500	924,345	643,739	(280,606)
Total Revenues	63,069,613	64,612,662	67,474,463	2,861,801
EXPENDITURES				
Current:				
General government	4,434,018	5,072,483	4,439,532	632,951
Judicial administration	1,577,075	1,607,410	1,594,048	13,362
Public safety	9,380,268	9,633,695	9,389,094	244,601
Public works	5,199,786	6,098,468	5,266,144	832,324
Health and welfare	2,089,473	2,320,573	1,992,066	328,507
Education and payments to Schools	27,694,182	27,694,182	27,685,031	9,151
Parks, recreation and culture	4,070,648	4,224,934	4,100,421	124,513
Community development	2,012,073	1,846,119	1,754,043	92,076
Economic development	354,880	364,880	321,839	43,041
Reserve for contingency	7,500	7,500	-	7,500
Debt service:				
Principal retirement	2,623,663	4,223,663	2,426,259	1,797,404
Interest and other fiscal charges	1,314,905	1,574,803	1,649,369	(74,566)
Total Expenditures	60,758,471	64,668,710	60,617,846	4,050,864
Excess (deficiency) of revenues over expenditures	2,311,142	(56,048)	6,856,617	6,912,665
OTHER FINANCING SOURCES (USES)				
Transfers from/(to) Enterprise Funds	150,000	150,000	150,000	-
Transfers in/(out)	(200,000)	(200,000)	(200,000)	-
Debt issuance	-	17,598,520	16,705,000	(893,520)
Premiums from issuance of bonds	-	-	874,336	874,336
Payment to refunded bond escrow	-	(15,919,343)	(17,437,909)	(1,518,566)
Total other financing sources and uses	(50,000)	1,629,177	91,427	(1,537,750)
Net change in fund balances	2,261,142	1,573,129	6,948,044	5,374,915
Fund balances - beginning	7,921,061	7,921,061	7,921,061	-
Fund balances - ending	\$ 10,182,203	\$ 9,494,190	\$ 14,869,105	\$ 5,374,915

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**As of June 30, 2012**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<u><b>Water</b></u>	<u><b>Sewer</b></u>	<u><b>Total</b></u>
<b>ASSETS</b>			
Current:			
Cash and cash equivalents	\$ 23,212,946	\$ 3,328,506	\$ 26,541,452
Receivables, net:			
Billed and other	1,425,422	303,624	1,729,046
Unbilled	4,440,000	760,000	5,200,000
Due from other governments	173,716	182,800	356,516
Prepaid expenses	4,662	244	4,906
Inventories	424,222	3,771	427,993
Restricted cash and cash equivalents	6,225,324	3,472,567	9,697,891
	<u>35,906,292</u>	<u>8,051,512</u>	<u>43,957,804</u>
Total current assets			
Non-current assets:			
Deferred OPEB charges	360,000	30,000	390,000
Deferred bond issuance and refunding cost, net	249,551	49,577	299,128
Capital assets:			
Non-depreciable	4,080,228	3,409,916	7,490,144
Depreciable, net	75,872,808	13,689,391	89,562,199
	<u>80,562,587</u>	<u>17,178,884</u>	<u>97,741,471</u>
Total non-current assets			
Total Assets	<u>116,468,879</u>	<u>25,230,396</u>	<u>141,699,275</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	2,032,782	1,059,760	3,092,542
Due to other funds	1,173,040	152,148	1,325,188
Accrued interest payable	208,271	78,837	287,108
Unearned revenue	290,859	-	290,859
Customer deposits	422,328	47,970	470,298
Bonds payable	850,000	336,192	1,186,192
Notes payable	343,784	197,175	540,959
Accrued compensated absences	257,451	14,941	272,392
Total current liabilities	5,578,515	1,887,023	7,465,538
Noncurrent liabilities:			
Deferred rent	15,105	-	15,105
Bonds payable, net of current amount	16,385,000	8,814,621	25,199,621
Notes payable, net of current amount	3,357,648	3,081,223	6,438,871
Discounts and premiums on bonds payable, net	471,020	308,622	779,642
Compensated absences, net of current amount	171,274	11,999	183,273
	<u>25,978,562</u>	<u>14,103,488</u>	<u>40,082,050</u>
Total Liabilities			
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	63,673,324	7,776,846	71,450,170
Unrestricted	26,816,993	3,350,062	30,167,055
	<u>90,490,317</u>	<u>11,126,908</u>	<u>101,617,225</u>
Total Net Assets			

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b><u>Water</u></b>	<b><u>Sewer</u></b>	<b><u>Total</u></b>
Operating Revenues:			
Charges for services	\$ 21,003,112	\$ 3,053,419	\$ 24,056,531
Rent	219,069	-	219,069
Miscellaneous	82,994	-	82,994
Total Operating Revenues	<u>21,305,175</u>	<u>3,053,419</u>	<u>24,358,594</u>
Operating Expenses:			
Source of supply	7,128,702	-	7,128,702
Distribution system	2,142,848	-	2,142,848
Collection and disposal	-	1,690,865	1,690,865
Water connections	323,317	-	323,317
Administration	5,998,677	240,166	6,238,843
Depreciation	2,960,974	608,274	3,569,248
Total Operating Expenses	<u>18,554,518</u>	<u>2,539,305</u>	<u>21,093,823</u>
Operating income	<u>2,750,657</u>	<u>514,114</u>	<u>3,264,771</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Availability fees	1,767,305	20,100	1,787,405
Interest and investment revenue	48,000	14,851	62,851
Loss on disposition of capital assets	(8,520)	-	(8,520)
Interest expense	(717,206)	(348,016)	(1,065,222)
Total Non-Operating Revenue (Expenses)	<u>1,089,579</u>	<u>(313,065)</u>	<u>776,514</u>
Income Before Contributions and Transfers	<u>3,840,236</u>	<u>201,049</u>	<u>4,041,285</u>
Capital contributions	1,496,722	-	1,496,722
Transfers from/(to) General Fund:			
Payments in lieu of taxes	<u>(110,000)</u>	<u>(40,000)</u>	<u>(150,000)</u>
Change in net assets	5,226,958	161,049	5,388,007
Total net assets at beginning of year	<u>85,263,359</u>	<u>10,965,859</u>	<u>96,229,218</u>
Total net assets at end of year	<u>\$ 90,490,317</u>	<u>\$ 11,126,908</u>	<u>\$ 101,617,225</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2012**

	<b>Business-Type Activities - Enterprise Funds</b>		
	<b>Water</b>	<b>Sewer</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers and users	\$ 20,745,051	\$ 2,685,560	\$ 23,430,611
Payments to suppliers	(9,315,182)	(1,391,096)	(10,706,278)
Payments to employees	(4,438,462)	(256,349)	(4,694,811)
Payments for interfund services used	(1,405,071)	(132,400)	(1,537,471)
Net Cash Provided by Operating Activities	5,586,336	905,715	6,492,051
<b>CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Issuance of new debt for the refunding of prior noncapital loans	1,158,750	-	1,158,750
Debt issuance cost	(19,308)	-	(19,308)
Premiums on issuance of bonds	40,866	-	40,866
Payments of principal on noncapital loan	(1,369,432)	-	(1,369,432)
Payments of interest on noncapital loan	(53,299)	-	(53,299)
Payments in lieu of taxes	(110,000)	(40,000)	(150,000)
Net Cash Used in NonCapital and Related Financing Activities	(352,423)	(40,000)	(392,423)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Receipts from customers for availability fees	1,260,930	20,100	1,281,030
Acquisition and construction of capital assets	(3,428,582)	(1,028,222)	(4,456,804)
Issuance of new debt for the refunding of prior construction and acquisition loans	1,591,250	-	1,591,250
Premiums on issuance of debt	56,118	-	56,118
Debt issuance cost	(26,516)	-	(26,516)
Payments of principal on construction and acquisition loan	(3,043,362)	(576,136)	(3,619,498)
Payments of interest on construction and acquisition loan	(663,471)	(399,428)	(1,062,899)
Net Cash Used In Capital and Related Financing Activities	(4,253,633)	(1,983,686)	(6,237,319)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends received	48,000	14,851	62,851
Net Cash Provided by Investing Activities	48,000	14,851	62,851
Net Increase/(Decrease) in Cash and Cash Equivalents	1,028,280	(1,103,120)	(74,840)
Cash and Cash Equivalents, Beginning of Year	28,409,990	7,904,193	36,314,183
Cash and Cash Equivalents, End of Year	\$ 29,438,270	\$ 6,801,073	\$ 36,239,343
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating income	\$ 2,750,657	\$ 514,114	3,264,771
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	2,960,974	608,274	3,569,248
Bad debt expense	92,000	10,000	102,000
Changes in operating assets and liabilities:			
(Increase)/decrease in:			
Accounts receivable and due from other governments	(491,731)	(485,332)	(977,063)
Prepaid expenses	(114)	(245)	(359)
Inventory	(45,569)	(219)	(45,788)
Deferred OPEB Charges	4,000	-	4,000
Increase/(decrease) in:			
Accounts payable, accrued liabilities and customer deposits	303,345	207,043	510,388
Unearned revenue	(76,726)	-	(76,726)
Deferred rent	7,324	-	7,324
Accrued compensated absences	35,564	(1,730)	33,834
Due to other funds	46,612	53,810	100,422
Total adjustments	2,835,679	391,601	3,227,280
Net Cash Provided by Operating Activities	\$ 5,586,336	\$ 905,715	\$ 6,492,051
<b>Supplemental Schedule of Noncash Investing, Capital and Financing Activities:</b>			
Contributions of capital assets	\$ 1,323,006	\$ -	\$ 1,323,006
Gain or (loss) on disposal of capital assets	\$ (8,520)	\$ -	\$ (8,520)

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
**As of June 30, 2012**

	<b>Post- Employment Trust Funds</b>	<b>Agency Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 3,517,312	\$ 2,291,862
Investments	83,050,412	-
Contributions receivable:	169,800	
Interest and dividends receivable	41,876	-
Accounts receivable	-	2,253,173
Due from general fund	-	2,965,177
	<hr/>	<hr/>
Total Assets	86,779,400	\$ 7,510,212
	<hr/>	<hr/>
<b>LIABILITIES</b>		
Accounts payable	7,058	\$ -
Due to general fund	1,555,882	-
Due to other governments	-	7,510,212
	<hr/>	<hr/>
Total Liabilities	1,562,940	\$ 7,510,212
	<hr/>	<hr/>
<b>NET ASSETS</b>		
Held in trust for pension benefits	80,583,208	
Held in trust for other post-employment benefits	4,633,252	
	<hr/>	
Total Net Assets	\$ 85,216,460	
	<hr/>	

The notes to the financial statements are an integral part of this statement.

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS**  
**POST-EMPLOYMENT TRUST FUNDS**  
**For the Year Ended June 30, 2012**

**ADDITIONS**

Employer contributions	\$ 3,453,145
Employee contributions	999,276
Investment earnings:	
Interest	68,797
Dividends	1,336,958
Net increase in the fair value of investments	<u>(407,279)</u>
Total investment earnings	998,476
Less investment expense	<u>(425,827)</u>
Net investment earnings	<u>572,649</u>
 Total Additions	 <u>5,025,070</u>

**DEDUCTIONS**

Benefits	4,435,726
Administration	<u>89,864</u>
 Total Deductions	 <u>4,525,590</u>
 Change in Net Assets	 499,480
Net Assets at Beginning of Year	<u>84,716,980</u>
 Net Assets at End of Year	 <u><u>\$ 85,216,460</u></u>



CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Falls Church, Virginia (the City), is a municipality incorporated as an independent city in 1948 under laws of the Commonwealth of Virginia, and is not part of any county. The City operates under a Council-Manager form of government and provides municipal services such as general administration, police, fire, street maintenance, sanitation, health and social services, recreation, library, planning and community development. Those services are either provided directly by the City or through contracts with the Counties of Arlington and Fairfax, Virginia. The City has its own water system that also serves a part of Fairfax County and a sewer system that only serves the City. Through one of its component units, the City of Falls Church School Board, the City provides elementary and secondary education to city residents.

A. Reporting Entity

The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City and not a part of the primary government.

**Blended component units.** Blended component units, although legally separate entities, are in substance part of the government's operations. Characteristics of blended component units are having substantially the same members of its governing body as the primary government, and/or created to provide services directly to or for the primary government. The City has no blended component units.

**Discretely presented component units.** Discretely presented component units are legally separate entities for which the elected officials of the primary government are financially accountable, the entity's governing body is not substantially the same as that of the primary government, and the entities do not provide services solely to or for the benefit of the primary government.

The following organizations are reported as discretely presented component units. None of these component units publish their own financial reports.

The City of Falls Church Public School Board (the "School Board") is responsible for elementary and secondary education within the City's jurisdiction. The members of the School Board are elected. The School Board is fiscally dependent upon the City because the City's Council approves the School Board's budget and provides a substantial portion of the School Board's funds for operations.

The Falls Church Economic Development Authority (EDA) was created by City Council to promote economic development within the City. The City Council appoints all members of the EDA board. The EDA is fiscally accountable to the Council, and the City is potentially liable for any operating deficits. The Council must approve all EDA debt issues.

B. Basis of Presentation

**Government-wide Financial Statements.** The government-wide financial statements (i.e., the statement of net assets (Exhibit I) and the statement of activities (Exhibit II)) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from its component units.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital

CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported instead as general revenues.

**Fund Financial Statements.** The accounts of the reporting entity are organized on the basis of funds, each of which is considered to be a separate accounting entity. Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of these financial statements is on major governmental and enterprise funds, which are presented in separate columns. All remaining governmental funds are aggregated and reported in one column as nonmajor funds.

The following are the major funds of the City:

**Governmental Funds.** The General Fund is the City's primary operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. Another major governmental fund is the Capital Projects Fund. This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by the proprietary funds).

**Proprietary Funds.** The Water Fund and the Sewer Fund are the two enterprise funds of the City. These funds are used to account for the financing, construction, and operations of the City's water and sewer systems.

The City also reports the following fiduciary funds:

**Post-Employment Trust Funds.** These funds are used to account for the activities of the City's two defined benefit pension plans, the Basic Pension Plan and the Police Pension Plan, which cover all regular and police employees of the City, respectively, as well as the City's and School Board's other post-retirement benefit trust funds, which provides for health and life insurance coverage for the City's and School Board's retirees.

**Agency Funds.** These funds are used to account for assets held by the City in a trustee capacity or as an agent for the Fairfax County Water Authority and the Northern Virginia Criminal Justice Academy. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of operations.

## C. Measurement Focus and Basis of Accounting

The City prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental entities.

### 1. *Government-wide, Proprietary, and Fiduciary Fund Financial Statements*

The government-wide, proprietary and fiduciary fund financial statements for the pension trust funds are reported using the economic resources measurement focus and the accrual basis of accounting, except that the fiduciary fund financial statements for the agency funds do not have a measurement focus. Under the economic resources measurement focus and the accrual basis of accounting, revenues are generally recognized when earned and expenses are recognized at the time a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been satisfied. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then unrestricted resources as they are needed.

Amounts reported as program revenues in the government-wide financial statements include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The City charges all costs except interest on long-term

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

obligations and depreciation to the appropriate function at the time such costs are incurred. Depreciation has been allocated to each function. Interest on long-term obligations is shown as a separate line item in the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition, including availability fees charged to new customers, are reported as nonoperating revenues and expenses.

For the pension trust funds, both member and employer contributions to each plan are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

For the other post-employment trust funds, employer contributions are recognized in the period in which the contributions are due. Benefits are recognized when due and payable in accordance with the terms of the plan.

The City follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989, in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of applying subsequent private-sector guidance for their business-type activities and Proprietary Funds, subject to this same limitation. The City has elected not to apply this option.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer functions and various other functions of the government. Elimination of these charges would distort the costs and program revenues reported for the various functions concerned.

## ***2. Governmental Fund Financial Statements***

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues from the use of money and from intergovernmental reimbursement grants are recorded as earned. Other revenues are considered to be available when they are collectible within the current period or within 60 days thereafter. The primary revenues susceptible to accrual include property, business licenses, and other local taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the individual programs are used as guidance. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, debt service expenditures, as well as expenditures related to compensated absences, are recognized only when payment is due. General capital asset acquisitions are reported as capital outlays in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

### **D. Assets, Liabilities, and Net Assets or Equity**

#### ***1. Cash and Cash Equivalents***

For purposes of the statement of cash flows, the City's cash and cash equivalents include certificates of deposit, Local Government Investment Pool assets, overnight repurchase agreements, short-term U.S. Government obligations and other highly liquid investments which are readily convertible to known amounts of cash and mature within three months of the date acquired by the City.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

The City maintains cash and cash equivalents for all funds in a single pooled account, except for certain cash and investments required to be maintained in separate accounts in order to comply with provisions of grants and other agreements. The component units also invest in the pooled cash account. As of June 30, 2012, the pooled cash and cash equivalents have been allocated between the City and the respective component units based upon their respective ownership percentages. Interest earned, less an administrative charge, is generally allocated to the respective funds and component units based on each fund's or component unit's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

City cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds and component units are transferred thereto through interfund receivable and payable accounts.

**2. *Investments***

Investments are recorded at fair value. Investment purchases and sales are recorded as of the trade date. Investment income is allocated to each fund based on each fund's equity in the pooled account except when City Council authorizes the allocation of the fund's interest income into the General Fund.

**3. *Receivables and Payables***

Activities within the funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide statement of net assets as "internal balances".

All trade and property taxes receivables, including those for the water and sewer funds, are shown net of an allowance for estimated uncollectible amounts. Unbilled water and sewer service bills are estimated at fiscal year end and were \$4.4 million and \$760 thousand, respectively as of year end.

Accounts payable and accrued liabilities include amounts due to vendors and employees for goods and services received as of year end.

**4. *Inventories and Prepaid Items***

All inventories are valued at the lower of cost (using the first in, first out method) or market. Inventories of both governmental and proprietary funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**5. *Restricted Assets***

Certain proceeds of the City's bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or other restrictions. These assets are generally restricted for building and infrastructure improvements, water and sewer system improvement, grants, and contributions.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

**6. Capital Assets**

Capital assets, which include land, buildings, improvements, machinery and equipment, library collections, infrastructure assets (e.g., roads, sidewalks, water and sewer systems, and similar items), and intangible assets (e.g., software, easements, etc.) that individually cost \$5,000 or more, with useful lives greater than one year are reported in the proprietary funds and applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed and actual costs are not known. Donated capital assets are recorded at estimated fair value at the date of donation.

The City entered into agreements with other jurisdictions or agencies for the purchase of water and treatment of its sewer. As part of these agreements, the City is allocated a share of operating and capital costs. The City's share of capital costs are recorded as purchased capacity in the City's enterprise funds and business-type activities.

Major outlays for capital assets and improvements, including related interest and other debt costs, are initially capitalized as construction in progress and are transferred to buildings, improvements, or purchased capacity when the assets are substantially complete and placed in service.

Leases that meet certain criteria are capitalized and related amortization is included in depreciation expense.

Capital assets are depreciated/amortized over their estimated useful lives using the straight-line method. Capital assets that have an indefinite useful life are not depreciated nor amortized. The estimated useful lives are as follows:

<b>Capital Assets</b>	<b>Useful Lives</b>
Infrastructure	20-50 years
Water and sewer system	20-50 years
Purchased capacity	20-40 years
Buildings	50 years
Improvements, other than buildings	10-20 years
Machinery and Equipment	5-20 years
Library collections	5 years
Software	3 years

The costs of normal maintenance and repairs that do not add to the value of the assets, materially extend their useful lives, nor increase the efficiency and effectiveness of the asset, are not capitalized.

**7. Compensated Absences**

All reporting entity employees earn annual leave and sick leave based on a prescribed formula. In addition, employees may accrue compensatory leave for hours worked in excess of their scheduled hours. Upon termination of employment, permanent City employees are entitled to payment of 100% of unused annual leave, generally 25% of all unused sick leave, and all of their compensatory leave not to exceed 40 hours for certain employees or 100 hours for other employees. School Board employees are paid up to 40 days of their annual leave and all sick leave at the rate of \$3.75 per hour.

A liability for these amounts is calculated using the employee's pay rate as of June 30, 2012, and is reported in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Such amounts are included in accounts payable and accrued liabilities shown in the City's and the School Board's governmental fund financial statements. The liabilities for compensated absences are liquidated by the General Fund and the Water and Sewer Funds for City employees and by the School Operating, Community Services, and Food Service Funds for School Board employees.

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

***8. Termination Benefits***

The School Board makes payments to eligible employees upon retirement equal to 100% of the employees' average of three highest salaries earned by the employee. The payment is paid monthly in up to 60 equal installments. If the retiree dies during the benefit period, the payments cease. In 2003, the School Board adopted a "sunset" provision for this benefit which restricted eligibility to employees who were employed by the School Board in FY2003 and have a minimum age of 45 years and 5 years of satisfactory employment by July 1, 2002.

The liability for this benefit is estimated using the eligible employees' salary as of June 30, 2012, including social security and medicare taxes and was approximately \$3.6M as of June 30, 2012. This liability is liquidated by the School Operating Fund.

***9. Long-term Obligations***

In the government-wide and proprietary funds financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary funds statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

***10. Net Assets***

Net assets are comprised of three categories: (1) net assets invested in capital assets, net of related debt; (2) restricted net assets; and (3) unrestricted net assets. The first category represents the portion of net assets that is associated with non-liquid, capital assets, less the associated outstanding debt. Restricted net assets reflect the assets whose use is restricted by outside parties or legal constraints. Net assets, which are neither restricted nor invested in capital assets, are reported as unrestricted net assets. The City had restricted net assets as of June 30, 2012 for grants received but not yet expended.

The City issues general obligation bonds to finance the construction of school facilities for the School Board because the School Board does not have borrowing or taxing authority. The City reports the outstanding obligations as a liability in its financial statements since the debt is issued and backed by the full faith and credit of the City. Pursuant to legislation passed by the Commonwealth of Virginia and accounting guidance provided by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, the capital assets acquired by such bond proceeds are reported as capital assets of the City in its government-wide financial statements until such time as the outstanding indebtedness is retired. Upon retirement of outstanding bonds, the net book value of such capital assets will be transferred to and reported in the School Board's government-wide financial statements.

***11. Designations of Enterprise Fund Net Assets***

Designations of fund balance represent management's plans that are subject to change.

As of June 30, 2012, City Council designated approximately \$26.5 million of the Water Fund unrestricted net assets to provide for future improvements as needed. Such net assets are primarily comprised of accumulated availability fees received from Water Fund customers.

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City Council also designated approximately \$2.7 million of the Sewer Fund unrestricted net assets for future improvements. These net assets consist of accumulated availability fees received from Sewer Fund customers.

**E. Recovered Costs**

Reimbursements from another government and interfund services are recorded as recovered costs. Interfund services include motor pool charges to the Water Fund, Sewer Fund and the School Board.

**F. Intergovernmental Agreements**

During 2012, the City had agreements with several governmental units to provide certain governmental services to the City. They are detailed below:

**1. County of Fairfax**

The City, the County of Fairfax (the County), and the City of Fairfax comprise the Fairfax-Falls Church Community Services Board (CSB), established under State mandate in 1969, to provide mental health, mental retardation and drug and alcohol abuse treatment services to residents of the three jurisdictions. The CSB uses the County as its fiscal agent. During 2012, the City paid the CSB approximately \$594 thousand.

The City also makes payments to the County for the full cost of the local portion of public assistance payments and for the use of special County health and recreation facilities by the City's residents. During 2012, the City paid the County approximately \$780 thousand for these services.

The City also uses the County's landfills. For these services, the City paid the County approximately \$108 thousand in 2012.

The City also has an agreement with the County to share in the cost of its sewage treatment facilities. During 2012, the City paid the County approximately \$662 thousand for sewage treatment costs. In addition, the City issued a note payable to the County for \$5,005,000 during FY2000 to pay for the City's share of the costs to upgrade the Alexandria Sanitation Treatment Plant. The City paid the County \$328 thousand in debt service towards this note during FY2012. Additional information on this debt can be found on Note III.F. In FY2008, another upgrade was commenced at the Alexandria Sanitation Treatment Plant. The City paid the County \$260 thousand in FY2012 for its share of the costs of the upgrade. All amounts relating to the City's share of these capital costs are recorded as capital assets in the Sewer Fund financial statements.

The City has an agreement with the County to bill for sewer services on its behalf to the County's sewer customers. The City remitted \$19.2 million in sewer revenue receipts to the County during FY2012. For this service, the City received \$641 thousand in compensation from the County.

**2. County of Arlington**

The City contracts its fire and rescue, and jail and judicial services, to Arlington County, Virginia. During 2012, the City paid Arlington County approximately \$1.9 million for fire and rescue services and approximately \$1.2 million for jail and judicial services.

The City also receives payment from Arlington County for its share of the cost of operating a girls' home facility. Payments received during 2012 amounted to approximately \$537 thousand and are recorded as revenues in the General Fund financial statements as well as the City's government-wide financial statements.

The City also entered into an agreement with Arlington County to share in the cost of its sewage treatment facilities. During 2012, the City paid Arlington County approximately \$900 thousand. \$414 thousand of this is for operating costs and \$486

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thousand is for the City's share of major upgrades to the treatment facilities in order for the facilities to be in compliance with new standards issued by the United States Environmental Protection Agency. \$414 thousand is recorded as an expense and \$486 thousand is recorded as construction-in-progress in the Sewer Fund financial statements and will be transferred to purchased capacity once the plant is in service.

**3. *United States Department of Army Corp. of Engineers (Department of Army)***

The City has an agreement with the Department of Army to purchase water and to share water treatment facility maintenance costs. For the fiscal year ended June 30, 2012, the City paid approximately \$4.6 million to the Department of Army for water and \$695 thousand towards facility maintenance costs. These costs are recorded as an expense in the Water Fund's financial statements. The City also paid the Department of Army \$785 thousand for debt service on the City's share of the debt issued to the US Treasury and the District of Columbia. \$672 thousand represents principal payment and \$112 thousand is for interest. In addition, during FY2012, the City paid approximately \$671 thousand to the Department of Army for its share of the costs to build a water residue processing plant. This is recorded as construction-in-progress in the Water Fund's financial statements and will be transferred to purchased capacity once the plant is in operation.

An escrow account has been established for the payments made from which the Department of Army draws down. The escrow account is an interest-bearing account and all earnings accrue to the City. In addition to the payments made to the Department of the Army, the City maintains a balance in the account of approximately two to three months of the cost of water purchased as agreed upon with the Department of Army. A restricted asset is recorded in the Water Fund's financial statements for the balance of the account and a corresponding liability is recorded for the estimated costs not yet drawn down by the Department of Army. As of June 30, 2012, the remaining balance on the account was approximately \$1.4 million and the liability was \$469 thousand. At the end of the Department of Army's fiscal year of September 30 of each year, the Department of Army reconciles actual amount incurred against payments. Any difference is then recorded as an expense or reduction of expense in the Water Fund's financial statements.

**4. *Northern Virginia Criminal Justice Training Academy (NVCJA)***

Along with other local jurisdictions, the City entered into an agreement to assist in financing the operations and debt service of NVCJA. NVCJA was established to provide training to local law enforcement officers. The City appoints members of the governing body of NVCJA, however, it does not retain an ongoing financial interest in NVCJA. The City paid NVCJA approximately \$52 thousand for its share of the operating and debt service costs for the fiscal year ended June 30, 2012.

**G. Joint Ventures**

**1. *Northern Virginia Transportation Commission (NVTC)***

The NVTC is a joint venture among the cities of Alexandria, Fairfax, and Falls Church and the counties of Arlington, Fairfax, and Loudoun. It was established to improve the transportation systems composed of transit facilities, public highways, and other modes of transportation. The Commonwealth of Virginia has authorized a 2% fuel tax to be used for transportation systems through NVTC. While each jurisdiction effectively controls NVTC's use of motor fuel tax proceeds from that jurisdiction, they do not have an explicit measurable equity interest in NVTC. NVTC is also the authorized grantee agency and receives state aid that the City uses to pay obligations to the WMATA as described below. Information regarding NVTC is provided in NVTC's separate, published financial statements, which are available to the general public from its offices at 4350 North Fairfax Drive, Suite 720, Arlington, VA 20243.

**2. *Washington Metropolitan Area Transit Authority (WMATA)***

The City participates in a joint venture with other local jurisdictions to share in the cost of a regional transportation system. The City does not maintain an equity interest in WMATA. The City is required to make certain contributions annually to



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WMATA pursuant to the Interjurisdictional Funding Agreement for Bus Service and the Fifth Interim Capital Contributions Agreement, which were executed in fiscal years 1999 and 1992, respectively. During the fiscal year ended June 30, 2012, the City's required contributions amounted to approximately \$2.4 million. \$2.2 million of this was paid through the City's participation in the NVTC using \$1.0 million in state aid and \$1.2 in gas taxes and interest earnings. The City paid \$145 thousand from the General Fund and the remainder was paid using credits retained at WMATA. The City anticipates its annual required contribution in fiscal year 2013 to be consistent with fiscal year 2012. Complete financial statements of WMATA may be obtained from WMATA, 600 5<sup>th</sup> Street, NW, Washington, DC 20001.

**H. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Estimates and assumptions have been used to calculate unbilled receivables, allowances for receivables, depreciation, liabilities for termination benefits, and actuarial values of pension and other post-employment benefits.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. Budgetary Information**

Formal budgetary integration is employed as a management control device during the year. Budgets for all governmental funds of the primary government and component units are adopted by the City Council on an annual basis consistent with GAAP with the exception of capital leases. The Council adopts project length budgets for the capital projects funds.

The following procedures are used by the City in establishing the budgetary data reflected in the financial statements:

- a. On a date fixed by the Council, the City Manager submits to the Council budgets for the general operation of the City government for the fiscal year commencing July 1.
- b. Public hearings are conducted to obtain citizen comments.
- c. The budget is legally enacted through passage of an appropriation ordinance. If, for any reason, the Council fails to adopt the appropriation ordinance prior to July 1, the previous fiscal year's budget remains in effect on a month-to-month basis until the Council adopts the budgets.
- d. The appropriation ordinance places legal restrictions on expenditures at the department level. During the course of the fiscal year, the Council may increase the appropriation for each fund through an ordinance. The Council may also revise the appropriations for each department through a resolution as long as the total budget for the fund does not change. The City Manager is authorized to transfer unencumbered balances within departments only.
- e. The action of the Council on the school budget relates to the total budget only and the School Board has the authority to expend at its discretion the sum appropriated for its use, provided that if it receives an appropriation greater or less than its original request, it must revise its estimates of expenditures and adjust appropriations accordingly. The School Board has the power to order transfers from one item of appropriation to another during the course of the fiscal year.
- f. Unencumbered appropriations lapse on June 30 for all City units except for those of the Capital Projects Fund, which are carried into the following year on a continuing appropriation basis unless there have been no expenditures in the project for the last three fiscal years. Encumbrance accounting is employed in governmental funds and proprietary funds. Encumbrances outstanding at year end are reported as assignments of fund balances unless they are already restricted or committed, and do not constitute expenditures or liabilities because the expenses have not yet been incurred; rather, the commitments are automatically reappropriated and honored during the subsequent year.

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- g. Original and final budgeted amounts are shown; amendments were not significant in relation to the original budget. Budget amendments may be approved by the City Council subsequent to adoption of the original budget throughout the year.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Cash, Cash Equivalents and Investments

##### 1. Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act") Section 2.2-4400 et seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

The following is a summary of the reporting entity's public deposits and petty cash as of June 30, 2012.

	Carrying Value	Bank Balance
Deposits:		
Primary government	\$ 29,831,250	\$ 30,926,909
Total deposits	29,831,250	30,926,909
Petty Cash:		
Primary government	4,599	-
Component units	4,300	-
Total petty cash	8,899	-
Total Deposits and Petty Cash	\$ 29,840,149	\$ 30,926,909

The differences between carrying values and bank balances generally result from outstanding checks and deposits in transit as of June 30, 2012.

As of June 30, 2012, the City's primary government has restricted cash of \$17.1 million. These are balances of proceeds from bonds which were issued for improvements of general government infrastructure and water and sewer systems, prepayments of connection fees, account deposits, as well as cash held by the City for the use of the Department of the Army (see Note I.F.3).

##### 2. Investments

#### Primary Government:

Investment Policy. In accordance with the Code of Virginia and other applicable law, including regulations, the City's investment policy (Policy) permits investments in U.S. Government obligations, obligations of the Commonwealth of Virginia or political subdivisions thereof, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, the State Treasurer's State Non-Arbitrage Program (SNAP, a pooled investment fund)

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and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). Both SNAP and LGIP are not registered with the SEC but are overseen by the Treasurer of Virginia and the State Treasury Board. The fair value of the City's position in the pools is the same as the value of the pool shares.

**Credit Risk.** As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's and Fitch Investor's Service. Corporate notes, negotiable Certificates of Deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investor Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investor Service.

Although State Statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the City has established stringent credit standards for these investments to minimize portfolio risk.

As of June 30, 2012, 58% of the portfolio was invested in the Virginia LGIP and 42% was invested in Virginia SNAP. Virginia LGIP and Virginia SNAP are a 2A-7 like investment pools with "AAA" rating.

**Concentration of Credit Risk.** The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the City's portfolio will be invested in the commercial paper of any single issuer. The Policy establishes limitations on the holdings on non-U.S. Government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted for commercial paper is 35% of the portfolio.

**Interest Rate Risk:** As a means of limiting exposure to fair value losses arising from rising interest rates, the City's Policy limits the investment of operating funds to investments with a stated maturity of no more than 1 year from the date of purchase, with no more than 10% with maturities of more than six months from date of purchase. Reserve funds for the Water and Sewer Enterprise Funds may be invested in securities with longer maturities. Proceeds from the sale of bonds must be invested in Virginia SNAP.

As of June 30, 2012, the carrying values and maturity of the City's investments were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturing in Less Than One Year</b>
<b>Primary Government:</b>		
Virginia LGIP	\$ 20,950,705	\$ 20,950,705
Virginia SNAP	14,956,693	14,956,693
Money market funds	116	116
	<u>35,907,514</u>	<u>35,907,514</u>
<b>Component Unit - School Board:</b>		
Money market funds - Virginia LGIP	3,752,363	3,752,363
	<u>3,752,363</u>	<u>3,752,363</u>
<b>Total Investments</b>	<u><u>\$ 39,659,877</u></u>	<u><u>\$ 39,659,877</u></u>

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Custodial Credit Risk. The Policy requires that all investment securities purchased by the City be held by the City or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2012, all of the City's investments are held in a bank's trust department in the City's name. All cash of the City is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

The total deposits and investments of \$69,576,970 are shown in the Government-wide Statement of Net Assets as follows:

Cash and Cash Equivalents	
Primary Government	\$ 48,570,704
Component Unit - School Board	3,756,663
Component Unit - EDA	76,941
Temporarily Restricted Cash and Cash Equivalents	
Primary Government	<u>17,172,662</u>
Total Cash and Cash Equivalents	<u><u>\$ 69,576,970</u></u>

**Post-Employment Funds**

As of June 30, 2012, the City's post-employment funds had the following investments:

<b>Investment Type</b>	<b>Fair Value</b>
<b>Held by Trustees - Post-Employment Funds:</b>	
Money market funds	\$ 3,517,311
Domestic equities	47,318,090
Domestic fixed income	15,273,385
International equities	17,352,030
Real estate securities	<u>3,106,908</u>
Total Investments	<u><u>\$ 86,567,724</u></u>

**Pension Funds**

Investment Policy: In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the Pension Fund's investment policy (Policy) permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the city retirement plans are vested in the Retirement Board as described in the City Ordinance # 1097. Investments of the Pension Fund are disclosed as "held by trustees" in the table above.

Concentration of Credit Risk. The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Pension Board to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, as adopted June 2004 and revised in July 2008, and actual concentration as of June 30, 2012:

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	Minimum	Maximum	Actual as of June 30, 2012
Domestic equities	48%	62%	58%
Domestic fixed income	12%	20%	18%
International equities	15%	23%	21%
Real estate	8%	12%	4%

Market Risk: Investments of the pension fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities to no more than 23% of the pension assets.

The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

***Other Post-Employment Benefits (OPEB) Fund***

Investment Policy: In accordance with the Code of Virginia and other applicable law, including City Council resolutions, the OPEB Fund's investment policy (Policy) permits investments in domestic fixed income securities, domestic and international equities and real estate investment trusts. The authority and responsibility for the administration, management and operation of the city OPEB trust fund is vested in the Finance Board as described in the City Resolution TR7-14. Investments of the OPEB Fund are disclosed as "held by trustees" in the table above.

Concentration of Credit Risk. The Policy establishes limitations on portfolio composition by issuer and by investment type in order to control concentration of credit risk. It is the responsibility of the Finance Board to direct the funds manager to rebalance the portfolio. The following table shows concentration of credit risk as allowed by the investment policy, as adopted October 2007, and actual concentration as of June 30, 2012:

	Minimum	Maximum	Actual as of June 30, 2012
Domestic equities	37%	47%	38%
Domestic fixed income	28%	38%	38%
International equities	14%	24%	20%
Real estate	1%	11%	3%

Market Risk: Investments of the OPEB fund are held for the long term and may be subject to short-term fluctuations in fair value due to market conditions and changes in interest rates. Foreign currency risk, a subset of market risk, is controlled for by limiting exposure to international equities to no more than 24% of the fund assets.

The performance of specific investment types in the portfolio will periodically result in actual balances above or below the limitations set by policy.

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B. Receivables

Receivables and allowances for uncollectible receivables of the primary government as of June 30, 2012, consist of the following:

	General Fund	Capital Projects Fund	Water Fund	Sewer Fund	Total	Fiduciary Funds	Total Primary Government
Receivables:							
Accounts - Billed	\$ 669,741	\$ -	\$ 2,318,122	\$ 391,624	\$ 3,379,487	\$ 2,253,173	\$ 5,632,660
Accounts - Unbilled	90,000	-	4,440,000	760,000	5,290,000	-	5,290,000
Other	398,616	-	-	-	398,616	-	398,616
Accrued interest/dividend	-	-	-	-	-	41,876	41,876
Contributions receivable	-	-	-	-	-	169,800	169,800
Property taxes:							
Delinquent	1,327,089	-	-	-	1,327,089	-	1,327,089
Not yet due	24,762,567	-	-	-	24,762,567	-	24,762,567
Due from other governments	1,418,298	57,261	173,716	182,800	1,832,075	-	1,832,075
Total receivables	28,666,311	57,261	6,931,838	1,334,424	36,989,834	2,464,849	39,454,683
Allowances for uncollectibles:							
Accounts	450,800	-	892,700	88,000	1,431,500	-	1,431,500
Property taxes:							
Delinquent	239,700	-	-	-	239,700	-	239,700
Not yet due	60,900	-	-	-	60,900	-	60,900
Total allowances for uncollectibles	751,400	-	892,700	88,000	1,732,100	-	1,732,100
Total Net Receivables	\$ 27,914,911	\$ 57,261	\$ 6,039,138	\$ 1,246,424	\$ 35,257,734	\$ 2,464,849	\$ 37,722,583

Delinquent property taxes receivable from taxpayers in the General Fund as of June 30, 2012, consist of the following:

Year of Levy	Real Estate	Personal Property	Total
2012	\$ 398,138	\$ -	\$ 398,138
2011	215,620	132,148	347,768
2010	106,055	74,095	180,150
2009	72,640	87,389	160,029
2008	54,671	36,154	90,825
Prior years	84,920	65,259	150,179
Total delinquent taxes	932,044	395,045	1,327,089
Allowances for Uncollectibles	-	(239,700)	(239,700)
Net Delinquent Tax Receivables	\$ 932,044	\$ 155,345	\$ 1,087,389

The City's real estate tax is levied at a rate enacted by City Council on the assessed value of property located in the City as determined by the City's real estate assessor as of January 1 of each year. Properties are assessed at 100% of fair market value of all land and improvements. Real property taxes are levied when the budget is adopted and collected in two installations due on June 5 and December 5. A lien attaches to the property at the time the real estate taxes are levied at January 1. For purposes of

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reporting, Code Section 58.1-3922 states that taxes are not reported as delinquent until after the last installment is due. Based on collection history of real property taxes, the City has not provided for an allowance for uncollectibles.

Personal property taxes on vehicle and business property are levied as of January 1 of each year, based on their estimated fair market value, and are due on October 5.

The City reports real estate and personal property taxes (net of allowances) assessed for calendar year 2012 as receivables because the City has an enforceable legal claim to these resources at June 30, 2012; however, some of these resources, which amount to approximately \$20.6 million for real property and approximately \$4.1 million for personal property, will not be available to the City until fiscal year 2013 and are therefore recognized as deferred revenue. A detailed breakdown of the components of deferred revenue at June 30, 2012 can be found at Note III E.

The component unit School Board has an accounts receivable balance as of June 30, 2012 of \$1 thousand and due from other government balance of \$376 thousand. Based on prior years' collection history, no allowance is deemed necessary for these receivables.

**C. Interfund Transfers and Balances**

Transfers are made from the general fund to the capital projects fund to provide funding for capital projects. Transfers from the water and sewer fund to the general fund are for payments in lieu of taxes.

Interfund transfers for the year ended June 30, 2012, are as follows:

<b>Transfer out:</b>	<b>Transfer In:</b>	
	<b>General Fund</b>	<b>Capital Projects Fund</b>
General Fund	\$ -	\$ 200,000
Water Fund	110,000	-
Sewer Fund	40,000	-
	<u>\$ 150,000</u>	<u>\$ 200,000</u>

The City's general fund also charges for administrative costs to the Water Fund and the Sewer Fund. The charges to the Water Fund were \$1.1 million and the charges to the Sewer Fund were \$0.1 million during FY2012. These are considered to be interfund reimbursements.

The City's cash receipt and disbursement transactions are initiated in the General Fund. Amounts applicable to the other funds are transferred thereto through interfund receivable and payable accounts. Interfund receivables and payables typically result when funds overdraw their share of the pooled cash and from interfund reimbursements for administrative costs. All amounts are expected to be paid within one year. The following table shows what comprises the interfund balances as of June 30, 2012:

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Receivable Fund	Amount	Payable Fund	Amount
General Fund	\$ 2,620,786	Post-Retirement Funds	\$ 1,295,598
		Sewer Fund	1,173,040
		Water Fund	152,148
Capital Project Fund	201,943		201,943
Component Unit - School Board	3,896,416	General Fund	3,636,132
		Post-Retirement Funds	260,284
Component Unit - Non-Major	250,000	General Fund	250,000
Agency Funds	2,965,069	General Fund	2,965,069
	<u>\$ 9,934,214</u>		<u>\$ 9,934,214</u>

#### D. Capital Assets

Capital assets activity for the primary government for the year ended June 30, 2012 , is as follows:

	Balances June 30, 2011	Increases	Decreases	Balances June 30, 2012
<b>Primary Government</b>				
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 8,423,880	\$ -	\$ -	\$ 8,423,880
Construction in Progress	351,315	732,505	263,541	820,279
Total capital assets not being depreciated	8,775,195	732,505	263,541	9,244,159
Capital assets being depreciated:				
Buildings and system	63,285,387	13,392	28,731	63,270,048
Machinery and equipment	10,537,887	760,225	62,487	11,235,625
Improvements other than buildings	4,816,552	-	-	4,816,552
Infrastructure	9,754,394	293,027	-	10,047,421
Intangible	1,478,399	-	-	1,478,399
Library collections	2,005,275	225,776	244,460	1,986,591
Total capital assets being depreciated	91,877,894	1,292,420	335,678	92,834,636
Less accumulated depreciation for:				
Buildings and system	18,302,918	1,409,165	5,627	19,706,456
Machinery and equipment	8,026,510	796,889	49,857	8,773,542
Improvements other than buildings	2,516,987	251,875	-	2,768,862
Infrastructure	6,038,311	190,261	-	6,228,572
Intangible	1,420,919	11,830	-	1,432,749
Library collections	1,535,620	200,892	244,460	1,492,052
Total accumulated depreciation	37,841,265	2,860,912	299,944	40,402,233
Total capital assets being depreciated, net	54,036,629	(1,568,492)	35,734	52,432,403
<b>Total capital assets, net - Governmental Activities</b>	<b>\$ 62,811,824</b>	<b>\$ (835,987)</b>	<b>\$ 299,275</b>	<b>\$ 61,676,562</b>



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	Balances 30, 2011	June Increases	Decreases	Balances June 30, 2012
<b>Primary Government (continued):</b>				
<b>Business-Type Activities:</b>				
<u>Water</u>				
Capital assets not being depreciated:				
Land	\$ 2,594,882	\$ -	\$ -	\$ 2,594,882
Construction in Progress	13,469,081	126,715	12,110,450	1,485,346
Total capital assets not being depreciated	16,063,963	126,715	12,110,450	4,080,228
Capital assets being depreciated:				
Buildings and system	94,351,994	4,758,434	34,910	99,075,518
Machinery and equipment	3,424,523	502,839	38,880	3,888,482
Improvements other than buildings	73,876	-	-	73,876
Purchased capacity	13,061,732	11,346,746	-	24,408,478
Other intangible	36,801	-	-	36,801
Total capital assets being depreciated	110,948,926	16,608,019	73,790	127,483,155
Less accumulated depreciation for:				
Buildings and system	41,696,850	2,021,654	26,390	43,692,114
Machinery and equipment	1,557,656	312,623	38,880	1,831,399
Improvements other than buildings	26,982	7,500	-	34,482
Purchased capacity	5,401,855	619,196	-	6,021,051
Other intangible	31,301	-	-	31,301
Total accumulated depreciation	48,714,644	2,960,973	65,270	51,610,347
Total capital assets being depreciated, net	62,234,282	13,647,046	8,520	75,872,808
Total capital assets, net - Water	78,298,245	13,773,761	12,118,970	79,953,036
<u>Sewer</u>				
Capital assets not being depreciated:				
Construction in Progress	10,279,081	879,303	7,748,468	3,409,916
Total capital assets not being depreciated	10,279,081	879,303	7,748,468	3,409,916
Capital assets being depreciated:				
Buildings and system	5,558,938	116,595	-	5,675,533
Machinery and equipment	160,905	-	-	160,905
Purchased capacity	5,005,000	7,681,289	-	12,686,289
Other intangible	9,900	-	-	9,900
Total capital assets being depreciated	10,734,743	7,797,884	-	18,532,627
Less accumulated depreciation for:				
Buildings and system	1,882,343	90,800	-	1,973,143
Machinery and equipment	142,994	7,547	-	150,541
Purchased capacity	2,202,200	507,452	-	2,709,652
Other intangible	7,425	2,475	-	9,900
Total accumulated depreciation	4,234,962	608,274	-	4,843,236
Total capital assets being depreciated, net	6,499,781	7,189,610	-	13,689,391
Total capital assets, net - Sewer	16,778,862	8,068,913	7,748,468	17,099,307
Total capital assets, net - Business-Type Activities	95,077,107	21,842,674	19,867,438	97,052,343
Total capital assets, net - Primary Government	\$ 157,888,930	\$ 21,006,685	\$ 20,166,712	\$ 158,728,903

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Capital assets activity for component units for the year ended June 30, 2012 , is as follows:

	Balances				Balances
	June 30, 2011	Increases	Decreases		June 30, 2012
<b>School Board:</b>					
Capital assets not being depreciated:					
Land	\$ 1,273,354	\$ -	\$ -	\$	1,273,354
Total capital assets not being depreciated	1,273,354	-	-		1,273,354
Capital assets being depreciated:					
Buildings and system	1,311,055	-	-		1,311,055
Machinery and equipment	2,451,479	249,929	-		2,701,408
Improvements other than buildings	10,532	-	-		10,532
Library collections	681,344	52,027	41,871		691,500
Intangible	7,996	-	-		7,996
Leasehold improvements	21,080	-	-		21,080
Total capital assets being depreciated	4,483,486	301,956	41,871		4,743,571
Less accumulated depreciation for:					
Buildings and system	317,299	40,588	-		357,887
Machinery and equipment	1,610,853	195,396	-		1,806,249
Improvements other than buildings	2,282	702	-		2,984
Library collections	549,286	60,056	41,871		567,471
Intangible	7,996	-	-		7,996
Leasehold improvements	4,567	2,108	-		6,675
Total accumulated depreciation	2,492,283	298,850	41,871		2,749,262
Total capital assets being depreciated, net	1,991,203	3,106	-		1,994,309
<b>Total capital assets, net - School Board</b>	<b>\$ 3,264,557</b>	<b>\$ 3,106</b>	<b>\$ -</b>	<b>\$</b>	<b>3,267,663</b>
<b>Nonmajor Component Unit:</b>					
Capital assets not being depreciated:					
Land	\$ 517,255	\$ -	\$ -	\$	517,255
Total capital assets not being depreciated	517,255	-	-		517,255
<b>Total capital assets - Nonmajor Component Units</b>	<b>\$ 517,255</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$</b>	<b>517,255</b>

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Depreciation expense for the year ended June 30, 2012, charged to the functions of the primary government and component units is as follows:

	<b>Governmental Activities</b>
<b>Primary Government:</b>	
<b>Governmental Activities:</b>	
General government administration	\$ 224,987
Judicial administration	35,403
Public safety	369,825
Public works	391,475
Health and welfare	1,181
Education	1,273,760
Parks, recreation, and cultural	510,202
Community development	15,200
Total depreciation expense - Governmental Activities	<u>2,822,033</u>
<b>Business-Type Activities</b>	
Water	2,960,974
Sewer	608,274
Total depreciation expense - Business-Type Activities	<u>3,569,248</u>
Total depreciation expense - Primary Government	<u>\$ 6,391,281</u>
<b>Component Units:</b>	
School Board	\$ 298,849
Total depreciation expense - Component Units	<u>\$ 298,849</u>

**E. Unearned and Deferred Revenue**

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. Governmental funds also report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental activities record receivables for taxes that are assessed as of January 1 but are not yet due. Revenues from such receivables are considered to be unearned. The Water Fund records as unearned revenue connection fees for which the connection has not been performed. As of June 30, 2012, the following comprise the unearned and deferred revenue reported in the governmental activities and funds:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total Primary Government</b>	<b>Governmental Funds</b>
Unavailable:				
Delinquent property taxes	\$ -	\$ -	\$ -	\$ 813,397
Property taxes not yet due	24,657,636	-	24,657,636	24,800,936
Other	-	-	-	215,600
Unearned	<u>284,208</u>	<u>290,859</u>	<u>575,067</u>	<u>386,882</u>
Total Deferred/Unearned Revenue	<u>\$ 24,941,844</u>	<u>\$ 290,859</u>	<u>\$ 25,232,703</u>	<u>\$ 26,216,815</u>

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F. Long-term Obligations

The following is a summary of changes in the government-wide long-term obligations of the reporting entity for the year ended June 30, 2012:

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Due Within One Year
<b>Primary Government</b>					
<b>Governmental activities:</b>					
General obligation bonds payable	\$ 32,039,513	\$ 24,120,000	\$ 18,519,330	\$ 37,640,183	\$ 3,155,583
Amortized premiums and discounts on bond issuance	754,123	895,888	736,953	913,058	-
Amortized deferred refunding amount	(262,869)	(624,539)	(83,831)	(803,577)	-
Compensated absences	1,833,286	1,128,981	1,029,400	1,932,867	1,186,006
Total long-term debt - Governmental activities	34,364,053	25,520,330	20,201,852	39,682,531	4,341,589
<b>Business-type activities:</b>					
<b>Water</b>					
General obligation bonds payable	18,225,000	2,750,000	3,740,000	17,235,000	850,000
Notes payable	4,374,225	-	672,793	3,701,432	343,784
Amortized discounts and premiums on bonds payable	400,148	96,984	26,112	471,020	-
Amortized deferred refunding amount	-	(11,299)	(1,276)	(10,023)	-
Compensated absences	393,162	282,218	246,654	428,726	257,451
Total long-term debt - Water Fund	23,392,535	3,117,903	4,684,283	21,826,155	1,451,235
<b>Sewer</b>					
General obligation bonds payable	6,824,961	-	157,097	6,667,864	257,403
Revenue bonds payable	2,712,398	-	229,449	2,482,949	78,789
Notes payable	3,467,989	-	189,591	3,278,398	197,175
Amortized discounts and premiums on bonds payable, net	324,638	-	16,016	308,622	-
Compensated absences	28,670	16,500	18,230	26,940	14,941
Total long-term debt - Sewer Fund	13,358,656	16,500	610,383	12,764,773	548,308
Total long-term debt - Business-type activities	36,751,191	3,134,403	5,294,666	34,590,928	1,999,543
<b>Total long-term debt - Primary Government</b>	<b>71,115,244</b>	<b>28,654,733</b>	<b>25,496,518</b>	<b>74,273,459</b>	<b>6,341,132</b>
<b>Component Units</b>					
<b>School Board:</b>					
Termination benefits	4,069,000	104,251	540,251	3,633,000	279,000
Compensated absences	1,041,534	642,295	600,834	1,082,995	436,331
Obligations under capital leases	212,963	-	59,225	153,738	66,516
Total long-term debt - School Board	5,323,497	746,546	1,200,310	4,869,733	781,847
<b>Total long-term debt - Component Units</b>	<b>5,323,497</b>	<b>746,546</b>	<b>1,200,310</b>	<b>4,869,733</b>	<b>781,847</b>
<b>Total long-term debt</b>	<b>\$ 76,438,741</b>	<b>\$ 29,401,279</b>	<b>\$ 26,696,828</b>	<b>\$ 79,143,192</b>	<b>\$ 7,122,979</b>

During FY2012, the city capitalized interest in the Water Fund of \$240 thousand and in the Sewer Fund of \$133 thousand.

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**1. General Obligation Bonds**

General obligation bonds have been issued to provide funding for long-term capital improvements. In addition, they have been issued to refund outstanding general obligation bonds when market conditions enabled the City to achieve significant reductions in its debt service payments. Such bonds are direct obligations of the City, and the full faith and credit of the City are pledged as security. The City is required to submit to public referendum for authority to issue general obligation bonds for any project exceeding 10% of general fund revenue. At June 30, 2012, all authorized general obligation bonds have been issued.

On December 22, 2011, City issued \$4.2 million in General Obligation Bonds with an average interest rate of 2.0% to refund two outstanding bonds:

- a. \$1.5 million of General Government 2008 series bond. The net proceeds of \$1.4 million (after payment of \$24 thousand in underwriting fees and other issuance costs), together with \$95 thousand of the City's own funds were deposited into an escrow account and used to purchased U.S. government securities. The bonds were fully redeemed on February 1, 2012. The 2008 refunded bond carried an interest rate of 3.7% and were due in level principal amounts, with the final payment due on February 1, 2023. The City paid a call premium of \$13 thousand. The City completed this refunding to reduce its total debt service payments over the next 11 years by \$124 thousand and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$119 thousand.
- b. \$2.8 million Water Fund 2006 series bond. The net proceeds of \$2.8 million (after payment of \$47 thousand in underwriting fees and other issuance costs), together with \$513 thousand of the City's own funds were deposited into an escrow account and used to purchased U.S. government securities. The bonds were fully redeemed on March 1, 2012. The 2006 refunded bond carried an interest rate of 3.9% and were due in mostly level principal amounts with \$450 thousand due annually for the next 4 years and \$200 thousand annually for the subsequent 5 years until maturation on March 1, 2021. The City completed this refunding to reduce its total debt service payments over the next 9 years by \$259 thousand and to obtain an economic gain of \$246 thousand.

On March 6, 2012, the City issued \$15.3M in general obligation bonds with an average coupon rate of 2.26% to advance refund \$14.6 million of outstanding General Government 2004 series bond with an average coupon rate of 3.98%. The net proceeds of \$15.9 million (after payment of \$198 thousand in underwriting fees and other costs of issuance), were deposited into an irrevocable trust fund with an escrow agent and used to purchase U.S. government securities. These funds, together with future earnings, provide for the payment of all future debt service on the 2004 series bonds. As a result, the 2004 series bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$625 thousand. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the fiscal year 2025 using the effective-interest method. The City completed this advance refunding to reduce its total debt service payments over the next 13 years by \$1.4 million and to obtain an economic gain of \$1.3 million. The amount outstanding on this bond as of June 30, 2012 is \$14,615,000.

The following are the general obligation bonds that were outstanding as of June 30, 2012:

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Bond Description	Governmental Activities	Business-Type Activities	
		Water Fund	Sewer Fund
\$2,445,000 School Construction bonds issued May 2, 1996 by VPSA; interest at various rates; variable amounts maturing through January 15, 2017.	\$ 550,000	\$ -	\$ -
\$32,340,000 School Construction & refunding bonds issued March 18, 2004; interest at various rates; variable amounts maturing through April 1, 2024.	5,190,000	-	-
\$1,023,000 General Obligation bonds issued January 21, 2005; interest at 3.32% principal amounts maturing annually in equal installments through April 1, 2011.	306,900	-	-
\$1,935,000 School Construction bonds, issued May 11, 2006 by VPSA; interest at various rates; variable amounts maturing through July 15, 2026.	1,435,000	-	-
\$6,260,000 Refunding bonds issued March 8, 2007 to partially advance refund 2000 General Obligation bonds; interest at 4.00%; variable amounts maturing through August 1, 2021.	5,975,000	-	-
the Virginia Resources Authority (VRA); interest at 2.26%; variable principal amounts maturing annually through March 15, 2013.	63,283	-	-
\$8,220,000 General Obligations bonds issued December 1, 2007 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2027.	-	7,090,000	-
\$5,385,000 General Obligation bonds issued November 19, 2009 through the VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2029.	-	5,020,000	-
VRA; interest at various rates; variable principal amounts maturing annually through October 1, 2031.	-	2,375,000	3,125,000
\$4,100,000 Line of Credit issued on May 13, 2009 to the VRA; interest rate at 3.35%; variable principal amounts maturing semiannually through September 1, 2029.	-	-	3,542,864
\$8,570,000 General Obligations Construction and Refunding bonds issued December 22, 2011; interest at various rates; variable principal amounts maturing annually through January 15, 2032.	5,820,000	2,750,000	-
December 15, 2011 through VPSA; interest at 4.25% and reimbursed by the Federal government; variable principal amounts maturing annually through December 1, 2030.	3,000,000	-	-
\$15,300,000 General Obligation refunding bonds issued March 6, 2012; interest at various rates; variable principal amounts maturing annually through August 1, 2024.	15,300,000	-	-
Total	37,640,183	17,235,000	6,667,864
<b>Total Primary Government</b>			<b>61,543,047</b>

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Annual debt service requirements to maturity for the general obligations serviced by the City as of June 30, 2012 are summarized in the following table:

<b>Fiscal Year Ending</b>	<b>Governmental Activities</b>			<b>Business-Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 3,155,583	\$ 1,129,296	\$ 4,284,879	\$ 1,107,403	\$ 959,256	\$ 2,066,659
2014	3,317,300	1,013,551	4,330,851	1,362,890	919,796	2,282,686
2015	2,452,300	891,191	3,343,491	1,393,561	875,161	2,268,722
2016	2,560,000	802,600	3,362,600	1,424,424	826,891	2,251,315
2017	2,615,000	733,575	3,348,575	1,200,485	776,815	1,977,300
2018-2022	14,355,000	2,521,047	16,876,047	6,410,754	3,134,927	9,545,681
2023-2028	7,413,332	1,091,644	8,504,976	6,946,113	1,726,203	8,672,316
2029-2032	1,771,668	542,631	2,314,299	4,057,234	327,028	4,384,262
<b>Total</b>	<b>\$ 37,640,183</b>	<b>\$ 8,725,536</b>	<b>\$ 46,365,719</b>	<b>\$ 23,902,864</b>	<b>\$ 9,546,077</b>	<b>\$ 33,448,941</b>

As of June 30, 2012, the City's legal debt limit is approximately \$325 million and its debt margin is approximately \$257 million.

## **2. Revenue Bonds**

In 2005, the City issued a sewer system revenue bond for \$3,275,000 to finance its share of the costs of the Arlington County's upgrades to its sewer system. The City issued this loan to the Virginia Resources Authority pursuant to the Virginia Water facilities Revolving Fund. The interest rate on this loan is 3% with variable principal amounts maturing annually through July 1, 2025.

Annual debt service requirements to maturity for this revenue bond as of June 30, 2012 are as follows:

<b>Fiscal Year Ending</b>	<b>Business-Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 78,789	\$ 37,244	\$ 116,033
2014	161,141	70,925	232,066
2015	166,011	66,055	232,066
2016	171,029	61,037	232,066
2017	176,198	55,868	232,066
2018-2022	964,170	196,161	1,160,331
2023-2026	765,611	46,621	812,232
<b>Total</b>	<b>\$ 2,482,949</b>	<b>\$ 533,911</b>	<b>\$ 3,016,860</b>

This bond has a rate covenant with VRA which states that the City will fix and collect rates, fees and other charges for the use of and for services furnished or to be furnished by the System so that in each fiscal year, the net revenues available for debt service will equal at least 115% of the amount required during the fiscal year to pay the principal and interest on all the revenue bonds. For FY2012, the City met this covenant.

## **3. Notes Payable**

As part of the City's agreement to purchase water from the Washington Aqueduct, it is required to pay debt service to the US Treasury and to the District of Columbia for loans that these entities have extended to the Washington Aqueduct to construct or acquire capital assets during 1997 and 1998. The loan to the United States Treasury carries an interest rate which varies

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according to a 3-month municipal bond with the same credit rating as the City. The loan has variable maturity with the last principal due in 2023. The loan to the District of Columbia carries an interest rate of 3.25% and matures in 2041.

In 2000, the City entered into an agreement with Fairfax County to pay for a portion of the County's share of the cost to upgrade the Alexandria Sanitation Plant. The City executed a note to the Fairfax County to pay its share over 25 years with an interest rate of 4%.

Annual debt service requirements to maturity for these notes are as follows:

<b>Fiscal Year Ending</b>	<b>Business-Type Activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2013	\$ 540,959	\$ 203,639	\$ 744,598
2014	551,505	190,565	742,070
2015	562,451	176,958	739,408
2016	575,542	163,144	738,686
2017	589,758	148,928	738,686
2018-2022	2,309,620	531,376	2,840,996
2023-2027	1,134,804	212,464	1,347,268
2028-2032	240,823	100,090	340,913
2033-2037	239,024	62,103	301,127
2038-2042	235,345	20,613	255,958
<b>Total</b>	<b>\$ 6,979,830</b>	<b>\$ 1,809,880</b>	<b>\$ 8,789,711</b>

#### **4. Obligations Under Capital Leases**

The City and School Board lease equipment, vehicles and buses under various capital leases expiring at various dates through 2014. All leases are non-cancelable except that they are contingent upon City Council appropriating funds for each year's payment.

The assets acquired through capital leases are as follows:

	<b>Component Unit</b>
	<b>School Board</b>
Asset:	
Machinery and equipment	\$ 800,595
Less: accumulated depreciation	(609,164)
<b>Net</b>	<b>\$ 191,431</b>

The future minimum lease payments and net present value of these minimum lease payments as of June 30, 2012 are as follows:



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	Component Unit
Fiscal Year Ending June 30	School Board
2013	\$ 81,178
2014	75,787
2015	18,562
Total minimum lease payments	175,527
Less: amount representing interest	(21,789)
Present value of minimum lease payments	\$ 153,738

G. Long-term Commitments

1. *Operating Lease Commitments*

The City and School Board lease office facilities and other equipment under various long-term lease agreements. Total costs for such leases were approximately \$118 thousand to the City and approximately \$253 thousand to the School Board for the fiscal year ended June 30, 2012. The future minimum lease payments for these leases are shown below:

	Primary Government	Component Unit
Fiscal Year Ending June 30	Governmental Activities	School Board
2013	\$ 114,552	\$ 263,016
2014	112,387	273,142
2015	89,688	283,658
2016	65,841	294,579
2017	68,376	305,920
2017-2020	147,828	638,120
Total	\$ 598,672	\$ 2,058,435

In October 2008, the City entered into a lease agreement to rent office space for a term of 10 years for \$4,281 per month. The lease began in July 2009. Similarly, in October 2007, the School Board entered into a lease agreement to rent office space for 10 years for \$19,549 per month which began in June 2009. Both leases include an annual increase of 3.85%. The minimum lease payments for both leases are included in the schedule above.

2. *Long-term Construction and Improvement Contracts*

The City has the following active construction and improvement commitments as of June 30, 2012:

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Project	Amount Spent- to-Date	Remaining Commitment
<b>Governmental Activities:</b>		
Thomas Jefferson Expansion	610,847	4,941,010
Total Governmental Activities	610,847	4,941,010
<b>Business-Type Activities:</b>		
Water:		
Arlington Blvd Water Main Replacement	155,611	109,720
Water Fund	155,611	109,720
Sewer:		
Arlington Treatment Plant	9,250,961	549,000
Alexandria Sewer Authority Upgrades	1,165,595	2,051,830
Sewer Fund	10,416,556	2,600,830
Total Business-Type Activities	10,572,167	2,710,550
<b>Total</b>	<b>\$ 11,183,014</b>	<b>\$ 7,651,560</b>

#### H. Fund Balance

In FY2011, the City implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement changes the classifications of fund balance from designated, reserved, and undesignated to non-spendable, restricted, committed, assigned and unassigned. This Statement also clarifies the definitions of the governmental fund types.

##### 1. Commitments and Assignments

The City Council is the City's highest level of decision-making authority. Commitments may be established, modified and rescinded through the adoption by the City Council of an ordinance or resolution. The City Council also assigns amounts to specific purpose. Encumbrances are approved by the Purchasing Agent or by the City Manager up to \$60,000 for professional services as defined by the Virginia Public Procurement Act and up to \$100,000 for all other contracts. The City Council approves contracts greater than those amounts. The City considers restricted amounts to be spent first before unrestricted amounts when both are available to be spent for the same purpose. The City also considers to have spent committed amounts first, assigned amounts second, and unassigned amounts last when expenditure is incurred for purposes for which amounts in any of these unrestricted fund balance classifications could be used.

The City Council has committed funds to the Capital Projects Fund and the Affordable Housing Unit Fund. The City has encumbered the following amounts as of June 30, 2012:

	Encumbrances Outstanding
General Fund	\$ 574,861
Capital Projects Fund	5,180,873
Component Unit - School Board	77,598
	<u>\$ 5,833,332</u>

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**2. Minimum Fund Balance Policy**

In December 2011, the City Council adopted a policy to establish a minimum fund balance level. The goal for unassigned fund balance shall be 17% but not less than 12% of General Fund expenditures, of the current fiscal year. In the event that the unassigned fund balance is used for unforeseen emergency needs the City shall restore the unassigned fund balance to 12% of General Fund expenditures within two fiscal years following the fiscal year within which the event occurred. To the extent that additional funds are necessary to restore the Unassigned Fund Balance to 17% of General Fund expenditures, such funds shall be accumulated in no more than three approximately equal contributions each fiscal year. This provides for full recovery of the targeted fund balance amount within five years following the fiscal year in which the event occurred.

As of June 30, 2012, the City's unassigned fund balance is 22.6% of General Fund expenditures.

**3. Special Revenue Fund**

The City has one special revenue fund, the Affordable Housing Unit Fund. This fund was originally established with a commitment from City Council of \$405 thousand. The fund has since received contributions from developers for affordable housing initiatives. The City expects to continue to receive contributions from developers and other entities to this fund.

**IV. RETIREMENT PLANS**

Full time, salaried employees of the City and School Board participate in one of three retirement plans, the Virginia Retirement System (VRS), the City's Basic Pension Plan, and the City's Police Pension Plan.

**A. Virginia Retirement System**

**1. Plan Description**

The City and the School Board contribute to the VRS, an agent and cost-sharing, multiple-employer defined benefit governmental retirement plan. All full-time salaried permanent employees of the City's constitutional offices and the professional employees of the School Board participate in the VRS. The VRS is administered by a Board of Trustees. Benefits vest after five years of creditable service. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

VRS administers two defined benefit plans for local government employees – Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least five years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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The VRS Basic benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report may be obtained from the VRS web site at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

## **2. Funding Policy**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their compensation toward their retirement. The City and School Board have assumed the 5% member contribution for their respective employees under Plan 1. Under Plan 2, the School Board assumed 4% of the member contribution and the City assumed 2%. In addition, the City and the School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The City's contribution rate for the fiscal year ended June 30, 2012, which includes the member contribution rate, was 11.16% of covered payroll for Plan 1 members and 9.16% for Plan 2 members. The School Board's contribution rate, which includes the member contribution rate, was 11.93% of annual covered payroll for Plan 1 members and 7.93% for Plan 2 members.

## **3. Annual Pension Costs**

The City's and School Board's annual pension cost and contributions made during fiscal year, 2012 was approximately \$66 thousand and \$2.1 million, respectively, which were equal to the City's and School Board's required and actual contributions. These include the contributions made by the City and the School Board on behalf of their respective employees.

The following table shows the required annual pension costs and the percentage contributed for the City and School Board employees for the last three years:

Fiscal Year Ended June 30	City			School Board		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 66,398	100%	\$ -	2,076,938	100%	-
2011	67,024	100%	-	1,762,186	100%	-
2010	55,904	100%	-	2,208,206	100%	-

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The FY2012 required contribution was determined as part of the June 30, 2011 actuarial valuation. The following table shows the methods and assumptions used for the valuations as of June 30, 2011.

	June 30, 2011
Actuarial cost method	Entry Age
Amortization method	Level Percent of Pay, Open
Payroll growth rate	3.00%
Remaining amortization period	20 Years
Asset valuation method	Five-Year Smoothed Market Value
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increases (Non-LEO members)	3.75%-5.60%
Projected salary increases (LEO members)	3.50%-4.75%
Cost of living adjustment - Plan 1	2.50%
Cost of living adjustment - Plan 2	2.25%

**4. Funded Status and Funding Progress**

As of June 30, 2011, the most recent actuarial valuation date, the City's plan was 107.13% funded. The actuarial accrued liability for benefits was \$3,472,680 and the actuarial value of assets was \$3,720,251, resulting in an unfunded actuarial accrued liability (UAAL) of negative \$247,571. The covered payroll was \$1,080,248, and the ratio of the UAAL to the covered payroll was negative 22.92%.

The schedule of funding progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**B. Basic and Police Pension Plans**

**1. Plan Description**

The City's Basic Pension Plan is a cost sharing multiple-employer defined benefit pension plan, covering all permanent employees of the City who are scheduled to work twenty hours or more per week, except police officers who are covered under the Police Pension Plan. School Board employees who work less than 80% of full time and are not eligible to participate in VRS, but meet the City pension plan's requirements, are eligible for the City's Basic Pension plan.

The Police Pension Plan is a single-employer defined benefit pension plan covering the City's police officers that work on a full-time basis.

Both Plans are authorized by the City Council, and are administered by the City. Benefit provisions are established and amended by City resolutions. Participants are 100% vested after five years of participation.

Member and employee contributions to the Plans are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due in accordance with the terms of the Plans.

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Upon retirement, a participant in either of the two City Plans would receive a monthly retirement allowance, which is determined based on a certain percentage of the participant's average final compensation at the date of retirement and the number of years of the participant's credited service. In the event of death prior to retirement eligibility, the participant's accumulated contributions are paid to the participant's designated beneficiaries in a lump sum. If a participant were vested and eligible for early or regular retirement at time of death, the designated beneficiary would receive a monthly retirement allowance.

The Plans do not issue stand-alone financial reports.

The City's membership in the Basic and Police Pension Plans as of July 1, 2011, the date of the most recent valuation, were as follows:

	<b>Basic</b>	<b>Police</b>
Retirees and beneficiaries	181	29
Terminated vested members	63	6
Active members	303	29
<b>Total</b>	<b>547</b>	<b>64</b>

## ***2. Summary of Significant Accounting Policies***

The financial statements of the Basic and Police Pension Plans are prepared using the accrual basis of accounting. Plan contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2012. Securities without an established market are reported at estimated fair value.

## ***3. Funding Policy***

The City Council establishes and may amend the contribution requirements of both plans. The City is required to contribute at an actuarially-determined rate. For fiscal year 2012, the total contributions rate was 16.97% of annual covered payroll for the Basic Pension Plan, with employees contributing 5.0% and 27.96% for the Police Pension Plan, with employees contributing 7.0%. In 2001, the plan was amended to allow permanent employees who were formerly temporary employees who worked more than 20 hours per week to buy back that period for which they were not eligible due to their temporary status. The rate of contribution by these employees is 5% of current salary for each month they are buying back. Administrative costs are borne by the assets of the plans.

On July 28, 2008, the City Council approved an amendment to the plans to allow employees to purchase up to four years credit for service with other governmental employers; Federal, military, State or local. The contribution for the purchase of credit is to be actuarially determined in order to make such purchase financially neutral to the pension funds.

## ***4. Annual Pension Cost***

Annual pension cost and contributions made during fiscal year 2012 was approximately \$2.7 million and \$628 thousand for Basic and Police Pension Plans, respectively, which were equal to the required and actual contributions.

The following table shows the required annual pension costs and the percentage contributed for the last three years:

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Fiscal Year Ended June 30	Basic			Police		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 2,654,196	100.00%	\$ -	\$ 627,608	100.00%	\$ -
2011	1,741,933	100.00%	-	358,900	100.00%	-
2010	1,096,837	100.00%	-	126,477	100.00%	-

The following are the relevant actuarial information for the Basic and Police Pension Plans as of July 1, 2010, the valuation date which the annual pension costs are based on:

	Basic	Police
Contribution rate:		
City	11.97%	20.96%
Plan members	5.0%	7.0%
Actuarial valuation date	July 1, 2010	July 1, 2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar amount (open)	Level dollar amount (open)
Amortization period	10 years	15 years
Asset valuation method	5-year Smoothed Method	5-year Smoothed Method
Actuarial assumptions:		
Investment rate of return	7.500%	7.500%
Projected salary increases	4.500%	4.500%
Includes inflation at	2.750%	2.750%
Cost of living adjustments	1.375%	1.375%

The following are the relevant actuarial information for the Basic and Police Pension Plans as of July 1, 2011, the date of the most recent valuation, are based on:

	Basic	Police
Actuarial valuation date	July 1, 2011	July 1, 2011
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level dollar amount (open)	Level dollar amount (open)
Amortization period	10 years	15 years
Asset valuation method	5-year Smoothed Method	5-year Smoothed Method
Actuarial assumptions:		
Investment rate of return	7.500%	7.500%
Projected salary increases	4.500%	4.500%
Includes inflation at	2.750%	2.750%
Cost of living adjustments	1.375%	1.375%

The Retirement Board recommended changes to the assumptions effective July 1, 2010 in order to reflect plan experience more accurately in the actuarial calculations.

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**5. Funded Status and Funding Progress**

The funded status of the plans as of July 1, 2011, the date of the most recent valuation date is as follows:

<b>Plan</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll ([b-a]/c)</b>
Basic	\$ 62,570,245	\$ 67,754,716	\$ 5,184,471	92.35%	\$ 14,569,918	35.58%
Police	\$ 17,163,421	\$ 19,049,297	\$ 1,885,876	90.10%	\$ 2,099,597	89.82%

The required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**V. OTHER POSTEMPLOYMENT BENEFITS**

The City provides post-retirement health care insurance benefits for employees who are eligible for retirement benefits and who retire from the City under City Council resolution number 82-20. There is no provision for deferral of benefits for employees who separate from City employment without retiring. The School Board also provides post-retirement health insurance benefits for eligible retirees. An irrevocable trust fund was established July 1, 2007 by action of City Council for purposes of pooling, accumulating and accounting for assets necessary to fund the City's and the School Board's future obligations for other post employment benefits. The trust fund is administered by the OPEB Finance Board consisting of the City Treasurer, Chief Financial Officer, and a citizen appointee.

The plans do not issue separate financial statements.

**A. Summary of Significant Accounting Policies**

Financial statements are prepared on the accrual basis of accounting. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan. All plan investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price on June 30, 2012. Securities without an established market are reported at estimated fair value.

**B. Plan Descriptions and Contribution Information**

The City and School Board OPEB plans are single-employer defined benefit post-employment healthcare plans that cover retired City and School Board employees. The City pays up to one-half of the health insurance premiums for General Government employees hired before April 1, 2008. For employees hired on or after April 1, 2008 who complete at least ten years of service, the City pays 2% of the premium for each year of service up to a maximum of 50%. The School Board pays up to forty percent of the health insurance premiums of School Board employees depending on years of service and/or date of hire. The City Council and the School Board have the authority to change these benefits for the City employees and School Board employees, respectively.



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Membership in the plan consisted of the following at June 30, 2012, the date of the latest actuarial valuation:

	<b>City</b>	<b>School Board</b>
Retirees and beneficiaries	100	53
Active members	246	390
Total	346	443

**C. Funded Status and Funding Progress**

Contribution requirements for City employees and the City are established by City Council. Contribution requirements for School Board employees and the School Board are established by the School Board. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually.

The City's and the School Board's OPEB cost (expense) is based on *the annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents the level of funding that, if paid on an on-going basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's and the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in their net OPEB asset.

	<b>City</b>	<b>School Board</b>
Annual Required Contribution (ARC)	\$ 893,000	\$ 513,000
Interest on prior year OPEB asset	(73,000)	(48,000)
Adjustment to the ARC	67,000	44,000
Net OPEB Cost	887,000	509,000
Contributions made	887,000	680,000
Increase (decrease) in net OPEB asset	-	171,000
Net OPEB asset, beginning of year	976,000	636,000
Net OPEB asset - end of year	\$ 976,000	\$ 807,000

The City's and School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligation for the past three years were as follows:

<b>Fiscal Year Ended</b>	<b>City</b>			<b>School Board</b>		
	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation/ (Asset)</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation/ (Asset)</b>
6/30/2012	\$ 887,000	100.00%	\$ (976,000)	\$ 509,000	133.60%	\$ (807,000)
6/30/2011	947,000	81.27%	(976,000)	779,000	79.87%	(636,000)
6/30/2010	888,000	117.53%	(1,158,000)	726,000	92.37%	(797,000)

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The funded status of the plans as of June 30, 2012, the most recent actuarial valuation date, are as follows:

	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percentage of Covered Payroll [(b-a)/c]</b>
City	\$ 2,384,000	\$ 11,124,000	\$ 8,740,000	21.43%	\$ 10,155,323	86.06%
School Board	\$ 2,249,000	\$ 5,273,000	\$ 3,024,000	42.65%	\$ 13,784,302	21.94%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employments, mortality and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the plan by the City in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement 43. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover the normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Projections of benefits for financial reporting purposes are based on the substantive plans (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and School Board and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. The following methods and assumptions were used as of June 30, 2010, the valuation upon which the FY2012 ARC is based on:

	<b>City</b>	<b>School Board</b>
Actuarial valuation date	June 30, 2010	June 30, 2010
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining Amortization period	26	26
Asset valuation method	5-year Smoothed method	5-year Smoothed method
Actuarial assumptions:		
Payroll growth rate	4.50%	4.50%
Investment rate of return	7.50%	7.50%
Consumer Price Index	2.75%	2.75%
Healthcare cost trend	Getzen Model	Getzen Model
2010-2011	8.20%	8.20%
2011-2012	7.30%	7.30%
Ultimate	4.90%	4.90%

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A valuation as of June 30, 2012 was also conducted with the following methods and assumptions:

	<b>City</b>	<b>School Board</b>
Actuarial valuation date	June 30, 2012	June 30, 2012
Actuarial cost method	Entry age normal	Entry age normal
Amortization method	Level percentage of payroll	Level percentage of payroll
Remaining Amortization period	25	25
Asset valuation method	5-year Smoothed method	5-year Smoothed method
Actuarial assumptions:		
Payroll growth rate	4.50%	4.50%
Investment rate of return	7.50%	7.50%
Consumer Price Index	2.75%	2.75%
Healthcare cost trend	Getzen Model	Getzen Model
2012	7.10%	7.10%
2013	6.70%	6.70%
Ultimate	4.70%	4.70%

## **VI. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance through the Virginia Municipal Liability (VML) Insurance Programs.

The City also carries workers' compensation insurance through the VML Insurance Programs. This program is administered by a servicing contractor, which furnishes claims review and processing services.

Each member jointly and severally agrees to assume, pay and discharge any liability. The City pays VML Insurance Programs contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of the Programs and claims awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Programs may assess all members in the proportion, which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The School Board carries commercial insurance through Utica Mutual for property, casualty, general liability, automobile coverage. Errors and omissions coverage are provided through the VaRISK 2 pool. Workers' compensation insurance is provided through School Systems of Virginia, a group self-insurance association. Settled claims from these risks have not exceeded commercial coverage in any of the last three fiscal years.

The total insurance premiums paid by the City and the Schools for the fiscal year ended June 30, 2012 were approximately \$673 thousand and \$216 thousand respectively.

## **VII. CONTINGENCIES AND SUBSEQUENT EVENTS**

The City and School Board receive grant funds, principally from the U.S. government. Expenditures of these funds are subject to audit by the grantor, and the City and School Board are contingently liable to refund amounts received in excess of allowable expenditures. In the opinion of management of the City and School Board, no material refunds will be required as a result of expenditures that may be disallowed by the grantors.

As a result of a court ruling in January 2010, the City currently has lawsuits from 3 customers for the refund of alleged unconstitutional taxes with a value of \$119 thousand plus interest of 10%. While there is a reasonable possibility of an unfavorable outcome, at this time, the City believes that the amount of probable loss will not be remotely close to the value noted. In addition, the City had received

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several letters from customers claiming refunds due, but the statute of limitations has expired for them to file any suits for refunds. No liability has been recorded in the City's financial statements for these lawsuits and claims.

The plaintiffs in the refund cases sought refunds of water payments made from 2007 to 2010. They argued that the City had improperly transferred a portion of water revenue from the water fund to the general fund to pay for general city services, that his transfer was an illegal tax, and that they were due a refund of their water payments. For Fiscal Year ("FY") 2007 and FY 2008, the City has already spent the money transferred from the water fund to the general fund and, if the plaintiffs were successful with their lawsuits, the money would need to be repaid out of the general fund. For FY 2009 and FY 2010, the money remained in the water fund and, if the plaintiffs were successful with their lawsuits, the money would need to be repaid out of the water fund. Therefore the total exposure of the City is divided about 50/50 between the water fund and the general fund. The City has allocated the legal bills from outside counsel defending the City against these refund suits on a 50/50 basis between the water fund and the general fund to reflect that about 50% of the total amount claimed is in the water fund.

In March 2012, the City filed a lawsuit in Fairfax County to strike down an ordinance that was adopted by the County limiting the City's ability to set its rates and increase its customer base. The ordinance required the City, as well as other suppliers in Fairfax County, to set its water rates no higher than the Fairfax Water rates unless Fairfax County has approved a higher rate. The ordinance also requires new developers in Fairfax County to obtain water service from Fairfax Water unless previously authorized otherwise. In May 2012, Fairfax Water removed the cases to Federal Court. This lawsuit and the application of the ordinance against the City were stayed as a result of the City's proposed water utility sale to Fairfax Water as discussed below.

On November 20, 2012, the City, Fairfax County and Fairfax Water, agreed, in principle, to sell the City water system to Fairfax Water.

The following are the principal terms of the sale:

- Fairfax Water will purchase the Falls Church water system assets for \$40 million. The city will retain debt and pension obligations of the water system of about \$30 million. The City's water utility assets, including three undeveloped land parcels located in Fairfax County totaling approximately 9 acres, will convey to Fairfax Water.
- Approximately \$26 million in availability fees, currently in the water fund, designated to be used for the expansion of the water system, will convey to Fairfax Water.
- Fairfax Water will acquire the City's existing water supply contract with the Washington Aqueduct and become the retail water supplier for the City's existing customers both inside the City and in the City's current area of service in eastern Fairfax County.
- Fairfax Water will guarantee a uniform water rate for the customers in the City's service area to ensure that City residents are treated equally to the City's existing Fairfax County customers.
- Fairfax Water will offer guaranteed employment (terminable only for the cause) to all of the City's water system employees at comparable pay and benefits for a period of at least three years.
- Within two years from the sale closing, Fairfax Water will reduce the water rates to all customers in the City's service area to Fairfax Water's rates and will thereafter maintain a uniform rate for all customers, barring any extraordinary utility requirements.
- The City's boundary with Fairfax County will be adjusted to include within the City's corporate limits the three parcels on which the George Mason High School and Mary Ellen Henderson Middle School complex and athletic facilities are located, a connecting parcel at the intersection of Haycock Road and Route 7 (Broad Street), as well as several City-owned parcels near the intersection of Shreve Road and Gordons Road. The land transfer amounts to approximately 42 acres. Thirty percent of the schools parcels may be used for any purpose, while the remaining portion must be used for education-related purposes for fifty years.
- Fairfax Water will meet twice a year with the City of Falls Church to discuss water system issues, and will maintain a payment office in the City for payment of water bills.
- The City of Falls Church's pending lawsuit will be stayed until the agreement can be consummated, at which time the lawsuit will be dismissed. Fairfax County will not enforce its rate regulation Ordinance against the City while the case is stayed.

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The three parties will complete their due diligence process and will then proceed to prepare and finalize the contract documents. In accordance with the City's charter, the question whether to approve the transaction will be subject to a referendum for voting in November 2013 in the City. If the parties complete their due diligence period, and the conditions of sale are satisfied, including approval by the citizens of the City, the sale will be consummated and the system conveyed to Fairfax Water in or around January 2014. The sale of the water utility will reduce the Primary Government's net assets by at least \$75 million, comprised mostly of net assets invested in capital assets.

The sale will provide the following benefits to the customers:

- Falls Church water system customer rates will be reduced to the same rates paid by Fairfax Water's existing customers within two years.
- The City of Falls Church's existing customers (inside and outside the City) will be charged the same water rates as Fairfax Water's customers in perpetuity, barring any extraordinary utility requirements.
- The economies of scale from the consolidated system will save tens of millions of dollars in future capital improvement expenses to the water system.
- The settlement will end all pending litigation between the parties.
- Fairfax County residents' water rates will be set by Fairfax Water, whose members are appointed by the Fairfax County Board of Supervisors.
- The Washington Aqueduct water supply to Falls Church will be combined with Fairfax Water's two existing state-of-the art treatment plants, providing additional back-up supply and creating one of the most robust, integrated water systems in the country.
- The purchase of the City of Falls Church water system will not impact the water rates of current Fairfax Water customers.

The City has allocated the legal and related expenses with regards to the lawsuit against Fairfax County and the sale of the water system to the Water Fund because these expenses are incurred to ensure the continued safe and reliable operation of the water system and the sale of water at a reasonable price.

The City is contingently liable with respect to other lawsuits and other claims, which arise in the ordinary course of its operation. Although the outcome of these matters is not presently determinable, in the opinion of management of the City and the City's attorney, the resolution of these matters will not have a material, adverse effect on the City's financial condition.

In FY2013, the town of Vienna, a wholesale customer of the City's water system, will begin purchasing their water from Fairfax Water and reducing their purchase from us by 50%. In FY2014, they will continue to reduce their purchase from us incrementally and it is expected that the transition will be completed in the summer of 2014. The City receives approximately \$1.8M in revenue from Vienna each year. This reduction will result in a loss of revenue of approximately \$450 thousand to \$900 thousand in FY2013. No reduction in cost related to source of supply will occur due to increases in fixed cost over this period.

## **VIII. FUTURE ACCOUNTING CHANGES**

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

- Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

CITY OF FALLS CHURCH, VIRGINIA  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for the inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or that management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.
- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain item as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.
- GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.
- GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The

**CITY OF FALLS CHURCH, VIRGINIA**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION  
REQUIRED SUPPLEMENTARY  
INFORMATION**





**CITY OF FALLS CHURCH, VIRGINIA**  
**REQUIRED SUPPLEMENTARY INFORMATION (In Thousands)**

**A. SCHEDULE OF FUNDING PROGRESS****1. Virginia Retirement System (VRS) for City's Constitutional Officers**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2011	\$ 3,720	\$ 3,473	\$ (247)	107.1%	\$ 1,080	(22.9%)
6/30/2010	3,639	3,301	(338)	110.2%	1,078	(31.4%)
6/30/2009	3,646	2,915	(731)	125.1%	1,071	(68.3%)

**2. Basic Pension Plan**

Actuarial Valuation Date	For Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2011	6/30/2013	\$ 62,570	\$ 67,755	\$ 5,184	92.3%	\$ 14,570	35.6%
7/1/2010	6/30/2012	61,080	67,472	6,392	90.5%	15,228	42.0%
7/1/2009	6/30/2011	61,647	60,662	(985)	101.6%	15,594	(6.3%)

**3. Police Pension Plan**

Actuarial Valuation Date	For Fiscal Year Ending	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
7/1/2011	6/30/2013	\$ 17,163	\$ 19,049	\$ 1,886	90.1%	\$ 2,100	89.8%
7/1/2010	6/30/2012	16,935	18,297	1,362	92.6%	2,193	62.1%
7/1/2009	6/30/2011	17,209	16,546	(663)	104.0%	2,316	(28.6%)

**4. Other Post-Employment Benefits Plan - City**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2012	\$ 2,384	\$ 11,124	\$ 8,740	21.4%	\$ 10,155	86.1%
6/30/2010	1,795	11,456	9,661	15.7%	11,096	87.1%
6/30/2008	1,013	10,417	9,404	9.7%	11,248	83.6%

**5. Other Post-Employment Benefits Plan - School Board**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Excess Funded) AAL (c) = (b) - (a)	Funded Ratio (a) / (b)	Annual Covered Payroll (d)	UAAL as a Percent of Covered Payroll (c) / (d)
6/30/2012	\$ 2,249	\$ 5,273	\$ 3,024	42.7%	\$ 13,784	21.9%
6/30/2010	1,270	6,040	4,770	21.0%	14,400	33.1%
6/30/2008	610	6,632	6,022	9.2%	14,278	42.2%

**CITY OF FALLS CHURCH, VIRGINIA  
REQUIRED SUPPLEMENTARY INFORMATION**

**B. SCHEDULE OF EMPLOYER CONTRIBUTIONS****1. Basic Pension Plan**

<b>Plan Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>% Contributed by Employer</b>
2012	\$ 2,654,196	68%
2011	1,921,820	83%
2010	1,166,474	100%

**2. Police Pension Plan**

<b>Plan Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>% Contributed by Employer</b>
2012	\$ 627,609	75%
2011	366,198	86%
2010	124,864	100%

**3. Other Post-Employment Benefits - City**

<b>Plan Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>% Contributed by Employer</b>
2012	\$ 893,000	99%
2011	974,000	79%
2010	917,000	114%

**4. Other Post-Employment Benefits - School Board**

<b>Plan Year Ended June 30</b>	<b>Annual Required Contribution</b>	<b>% Contributed by Employer</b>
2012	\$ 513,000	133%
2011	797,000	78%
2010	751,000	89%

**C. NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

1. The actuarial assumptions and methods used for the valuation date of July 1, 2011 for the Basic and Police Pension Plans and Other Post-Employment Benefit Plans are disclosed in the Notes to the Financial Statements. The actuarial assumptions and methods used for the valuation date of June 30, 2011 for the VRS are also disclosed in the Notes to the Financial Statements. The actuarial assumptions and methods used for the valuation date of June 30, 2012 for the Other Post-Employment Benefit Plans for the City and School Board are disclosed in the Notes to the Financial Statements.

2. Readers may obtain a copy of the VRS comprehensive annual financial report that includes financial statements and required supplementary information by writing to the VRS at P.P. Box 2500, Richmond, VA 23218-2500.

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**FINANCIAL SECTION  
OTHER SUPPLEMENTARY  
INFORMATION**



**CITY OF FALLS CHURCH, VIRGINIA**  
**COMBINING SCHEDULE OF FIDUCIARY NET ASSETS - POST-EMPLOYMENT TRUST FUNDS**  
**As of June 30, 2012**

	<b>Basic Plan</b>	<b>Police Plan</b>	<b>Other Post Employment Benefits</b>	<b>School Board Other Post- Employment Benefits</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 985,553	\$ 319,950	1,226,526	\$ 985,283	\$ 3,517,312
Investments:					
Domestic equity securities	36,020,828	9,992,070	723,774	581,417	47,318,089
Domestic fixed income securities	11,082,750	2,887,139	722,834	580,662	15,273,385
International equity securities	13,050,444	3,609,781	383,630	308,175	17,352,030
Real estate investment fund	2,367,358	622,764	64,762	52,024	3,106,908
Total investments	62,521,380	17,111,754	1,895,000	1,522,278	83,050,412
Contributions receivable:					
Employer	70,645	18,476	45,000	-	134,121
Employee	29,509	6,170	-	-	35,679
Total contributions receivable	100,154	24,646	45,000	-	169,800
Interest and dividend receivable	29,774	8,283	2,118	1,701	41,876
Total Assets	63,636,861	17,464,633	3,168,644	2,509,262	86,779,400
<b>LIABILITIES</b>					
Accounts payable	5,653	1,405	-	-	7,058
Due to general fund	394,287	116,941	784,370	260,284	1,555,882
Total Liabilities	399,940	118,346	784,370	260,284	1,562,940
<b>NET ASSETS</b>					
Held in trust for pension benefits	63,236,921	17,346,287	-	-	80,583,208
Held in trust for other post-employment benefits	-	-	2,384,274	2,248,978	4,633,252
Total Net Assets	\$ 63,236,921	\$ 17,346,287	\$ 2,384,274	\$ 2,248,978	\$ 85,216,460

**CITY OF FALLS CHURCH, VIRGINIA**  
**COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET ASSETS - POST-EMPLOYMENT TRUST FUNDS**  
**For the Year Ended June 30, 2012**

	<u>Basic Plan</u>	<u>Police Plan</u>	<u>Other Post Employment Benefits</u>	<u>School Board Other Post- Employment Benefits</u>	<u>Total</u>
<b>ADDITIONS</b>					
Employer contributions	\$ 1,812,061	\$ 470,468	\$ 638,587	\$ 532,029	\$ 3,453,145
Employee contributions	842,135	157,141	-	-	999,276
Investment earnings:					
Interest	26,267	40,721	1,003	806	68,797
Dividends	962,656	268,758	58,506	47,038	1,336,958
Net increase in the fair value of investments	(236,983)	(180,232)	5,510	4,426	(407,279)
Total investment earnings	751,940	129,247	65,019	52,270	998,476
Less investment expense	(318,197)	(90,019)	(9,766)	(7,845)	(425,827)
Net investment earnings	433,743	39,228	55,253	44,425	572,649
Total Additions	3,087,939	666,837	693,840	576,454	5,025,070
<b>DEDUCTIONS</b>					
Benefits	3,145,064	770,974	404,011	115,677	4,435,726
Administration	64,853	25,011	-	-	89,864
Total Deductions	3,209,917	795,985	404,011	115,677	4,525,590
Change in Net Assets	(121,978)	(129,148)	289,829	460,777	499,480
Net Assets at Beginning of Year	63,358,899	17,475,435	2,094,445	1,788,201	84,716,980
Net Assets at End of Year	<u>\$ 63,236,921</u>	<u>\$ 17,346,287</u>	<u>\$ 2,384,274</u>	<u>\$ 2,248,978</u>	<u>85,216,460</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**COMBINING STATEMENT OF AGENCY NET ASSETS**  
As of June 30, 2012

	<u>Fairfax County Water Authority Fund</u>	<u>Northern Virginia Criminal Justice Academy Fund</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 2,291,862	\$ 2,291,862
Other receivables	2,253,173	-	2,253,173
Due from general fund	<u>1,910,910</u>	<u>1,054,267</u>	<u>2,965,177</u>
Total Assets	<u>\$ 4,164,083</u>	<u>\$ 3,346,129</u>	<u>\$ 7,510,212</u>
<b>LIABILITIES</b>			
Due to other governments	<u>\$ 4,164,083</u>	<u>\$ 3,346,129</u>	<u>\$ 7,510,212</u>
Total Liabilities	<u>\$ 4,164,083</u>	<u>\$ 3,346,129</u>	<u>\$ 7,510,212</u>

**CITY OF FALLS CHURCH, VIRGINIA**  
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**For the Year Ended June 30, 2012**

	<u>Balances</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2012</u>
<b>Fairfax County Water Authority Fund</b>				
<b>ASSETS</b>				
Accounts receivables	\$ 1,895,280	\$ 19,813,815	\$19,455,922	\$ 2,253,173
Due from general fund	<u>1,557,799</u>	<u>19,149,788</u>	<u>18,796,677</u>	<u>1,910,910</u>
Total Assets	<u>\$ 3,453,079</u>	<u>\$38,963,603</u>	<u>\$38,252,599</u>	<u>\$ 4,164,083</u>
<b>LIABILITIES</b>				
Due to other governments	<u>\$ 3,453,079</u>	<u>\$38,963,603</u>	<u>\$38,252,599</u>	<u>\$ 4,164,083</u>
Total Liabilities	<u>\$ 3,453,079</u>	<u>\$38,963,603</u>	<u>\$38,252,599</u>	<u>\$ 4,164,083</u>
<b>Northern Virginia Criminal Justice Academy Fund</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,088,891	\$ 1,234,952	\$ 1,031,981	\$ 2,291,862
Due from general fund	<u>(24,889)</u>	<u>5,762,022</u>	<u>4,682,866</u>	<u>1,054,267</u>
Total Assets	<u>\$ 2,064,002</u>	<u>\$ 6,996,974</u>	<u>\$ 5,714,847</u>	<u>\$ 3,346,129</u>
<b>LIABILITIES</b>				
Due to other governments	\$ 2,064,002	\$ 6,996,974	\$ 5,714,847	\$ 3,346,129
Due to general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 2,064,002</u>	<u>\$ 6,996,974</u>	<u>\$ 5,714,847</u>	<u>\$ 3,346,129</u>
<b>Total</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,088,891	\$ 1,234,952	\$ 1,031,981	\$ 2,291,862
Other receivables	1,895,280	19,813,815	19,455,922	2,253,173
Due from general fund	<u>1,532,910</u>	<u>24,911,810</u>	<u>23,479,543</u>	<u>2,965,177</u>
Total Assets	<u>\$ 5,517,081</u>	<u>\$45,960,577</u>	<u>\$43,967,446</u>	<u>\$ 7,510,212</u>
<b>LIABILITIES</b>				
Due to other governments	\$ 5,517,081	\$45,960,577	\$43,967,446	\$ 7,510,212
Due to general fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>\$ 5,517,081</u>	<u>\$45,960,577</u>	<u>\$43,967,446</u>	<u>\$ 7,510,212</u>



CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
As of June 30, 2012

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental School Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,678,420	\$ 790,736	\$ 287,507	\$ 3,756,663
Accounts receivable	300	133	1,479	1,912
Due from primary government	3,431,746	204,386	-	3,636,132
Due from fiduciary funds	260,284	-	-	260,284
Due from other governmental units	372,161	-	4,039	376,200
Prepays	186,124	5,950	-	192,074
Total Assets	<u>\$ 6,929,035</u>	<u>\$ 1,001,205</u>	<u>\$ 293,025</u>	<u>\$ 8,223,265</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	<u>\$ 4,596,308</u>	<u>\$ 115,109</u>	<u>\$ 63,795</u>	<u>\$ 4,775,212</u>
Total Liabilities	<u>4,596,308</u>	<u>115,109</u>	<u>63,795</u>	<u>4,775,212</u>
Fund Balances:				
Nonspendable:				
Prepays	186,124	5,950	-	192,074
Assigned:				
Encumbrances	77,598	-	-	77,598
Education	<u>2,069,005</u>	<u>880,146</u>	<u>229,230</u>	<u>3,178,381</u>
Total Fund Balances	<u>2,332,727</u>	<u>886,096</u>	<u>229,230</u>	<u>3,448,053</u>
Total Liabilities and Fund Balances	<u>\$ 6,929,035</u>	<u>\$ 1,001,205</u>	<u>\$ 293,025</u>	<u>\$ 8,223,265</u>

**SCHEDULE 6**

**CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
As of June 30, 2012**

Fund balances - total governmental funds		\$ 3,448,053
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit I) are different because :		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	6,016,924	
Less accumulated depreciation	<u>(2,749,261)</u>	3,267,663
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Deferred compensation payable	(3,633,000)	
Compensated absences	(1,082,995)	
Capital leases payable	<u>(153,738)</u>	(4,869,733)
Deferred OPEB charges reported in governmental activities use current financial resources and therefore are reported as expenditures in the governmental fund financial statements but are reported as an asset in the governmental activities of the Statement of Net Assets.		
		807,000
Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure. The difference is included in other accrued liabilities in the governmental activities of the Statement of Net Assets.		
		(111,950)
Net Assets of Governmental Activities		<u><u>\$ 2,541,033</u></u>

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2012

	<u>Operating Fund</u>	<u>School Community Service Fund</u>	<u>Nonmajor Governmental School Food Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Revenue from use of money and property	\$ 28,924	\$ 66,422	\$ -	\$ 95,346
Charges for services	356,914	1,023,181	623,029	2,003,124
Miscellaneous	37,426	80,827	4,098	122,351
Intergovernmental:				
Federal	885,136	-	127,281	1,012,417
Commonwealth	5,016,207	-	9,204	5,025,411
Primary government	27,235,058	428,600	-	27,663,658
Total Revenues	<u>33,559,665</u>	<u>1,599,030</u>	<u>763,612</u>	<u>35,922,307</u>
<b>EXPENDITURES</b>				
Current:				
Education	33,230,098	1,343,525	731,187	35,304,810
Capital outlay	811,283	128,948	-	940,231
Debt service:				
Principal	59,225	-	-	59,225
Interest	21,953	-	-	21,953
Total Expenditures	<u>34,122,559</u>	<u>1,472,473</u>	<u>731,187</u>	<u>36,326,219</u>
Excess (deficiency) of revenues over expenditures	<u>(562,894)</u>	<u>126,557</u>	<u>32,425</u>	<u>(403,912)</u>
Other financing sources/(uses):				
Transfers in/(out)	<u>34,500</u>	<u>(30,000)</u>	<u>(4,500)</u>	<u>-</u>
Total Other Financing Sources/(Uses)	<u>34,500</u>	<u>(30,000)</u>	<u>(4,500)</u>	<u>-</u>
Net Change in Fund Balances	<u>(528,394)</u>	<u>96,557</u>	<u>27,925</u>	<u>(403,912)</u>
Fund Balances at Beginning of Year	<u>2,861,121</u>	<u>789,539</u>	<u>201,305</u>	<u>3,851,965</u>
Fund Balances at End of Year	<u>\$ 2,332,727</u>	<u>\$ 886,096</u>	<u>\$ 229,230</u>	<u>\$ 3,448,053</u>

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2012

Net change in fund balances - total governmental funds	\$	(403,912)
Amounts reported for governmental activities in the Statement of Activities (Exhibit II) are different because :		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets.		
Expenditures for capital assets	301,955	
Less current year depreciation	<u>(298,849)</u>	3,106
Governmental funds report outlays for the contribution to the other post-employment benefit trust fund. It also reports outlays for implicit subsidies of other post-employment benefit provided to retirees. Governmental activities recognize an expense that is equal to the annual required contribution (ARC) and the amortization of prior underpayments/overpayments in the governmental activities of the Statement of Changes in Net Assets.		
		171,000
Governmental activities recognize rent expense equally over the term of the lease agreement whereas governmental funds report only the outlays for rent payments as expenditure.		
		(25,914)
The issuance of long-term debt (e.g., capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. However, issuing debt increases long-term liabilities and the repayment of debt reduces long-term liabilities in the Statement of Net Assets, but these transactions do not affect the Statement of Activities.		
Principal payments on capital leases		59,225
Governmental funds report outlays for termination benefit payments in the current period. Governmental activities record such payments as reduction of the termination benefits liability. Expenses for changes in the liability due to change in compensation are recorded in the Statement of Activities.		
		436,000
Certain expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
Change in compensated absence liability		<u>(41,461)</u>
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>198,044</u>

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
OPERATING FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	
REVENUES				
Revenue from use of money and property	\$ 30,000	\$ 30,000	\$ 28,924	\$ (1,076)
Charges for services	324,500	324,500	356,914	32,414
Miscellaneous	365,000	365,000	37,426	(327,574)
Intergovernmental:				
Federal	1,061,200	1,061,200	885,136	(176,064)
Commonwealth	5,057,800	5,057,800	5,016,207	(41,593)
Primary government	27,247,000	27,235,058	27,235,058	-
Total Revenues	34,085,500	34,073,558	33,559,665	(513,893)
EXPENDITURES				
Current:				
Education	35,135,550	34,613,941	33,230,098	1,383,843
Capital outlay	393,950	919,320	811,283	108,037
Debt service:				
Principal	-	-	59,225	(59,225)
Interest	-	-	21,953	(21,953)
Total Expenditures	35,529,500	35,533,261	34,122,559	1,410,702
Excess/(deficiency) of revenues over/(under) expenditures	(1,444,000)	(1,459,703)	(562,894)	896,809
Other financing sources/(uses):				
Transfers in/(out)	58,000	58,000	34,500	(23,500)
Total Other Financing Sources/(Uses)	58,000	58,000	34,500	(23,500)
Net Change in Fund Balances	(1,386,000)	(1,401,703)	(528,394)	873,309
Fund Balances at Beginning of Year	2,861,121	2,861,121	2,861,121	-
Fund Balances at End of Year	\$ 1,475,121	\$ 1,459,418	\$ 2,332,727	\$ 873,309

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
SCHOOL COMMUNITY SERVICE FUND  
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES --  
BUDGET AND ACTUAL  
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget - Positive
	Original	Final	Actual	
<b>REVENUES</b>				
Revenue from use of money and property	\$ 67,300	\$ 67,300	\$ 66,422	\$ (878)
Charges for services	969,000	969,000	1,023,181	54,181
Miscellaneous	93,900	93,900	80,827	(13,073)
Intergovernmental:				
Primary government	428,600	428,600	428,600	-
Total Revenues	1,558,800	1,558,800	1,599,030	40,230
<b>EXPENDITURES</b>				
Current:				
Education	1,456,800	1,475,867	1,343,525	132,342
Capital Outlay	136,000	177,914	128,948	48,966
Total Expenditures	1,592,800	1,653,781	1,472,473	181,308
Excess of revenues over expenditures	(34,000)	(94,981)	126,557	221,538
Other financing sources/(uses):				
Transfers in/(out)	(23,500)	(30,000)	(30,000)	-
Total Other Financing Sources/(Uses)	(23,500)	(30,000)	(30,000)	-
Net Change in Fund Balances	(57,500)	(124,981)	96,557	221,538
Fund Balances at Beginning of Year	789,539	789,539	789,539	-
Fund Balances at End of Year	\$ 732,039	\$ 664,558	\$ 886,096	\$ 221,538

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
STATEMENT OF FIDUCIARY NET ASSETS  
AGENCY FUNDS  
As of June 30, 2012

	<u>Thomas Jefferson Elementary</u>	<u>Mt. Daniel Elementary</u>	<u>Mary Ellen Henderson Middle School</u>	<u>George Mason High School</u>	<u>Total</u>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 26,000	\$ 32,844	\$ 43,354	\$ 318,829	\$ 421,027
Total Assets	<u>\$ 26,000</u>	<u>\$ 32,844</u>	<u>\$ 43,354</u>	<u>\$ 318,829</u>	<u>\$ 421,027</u>
<b>LIABILITIES</b>					
Amounts held for others	\$ 26,000	\$ 32,844	\$ 43,354	\$ 318,829	\$ 421,027
Total Liabilities	<u>\$ 26,000</u>	<u>\$ 32,844</u>	<u>\$ 43,354</u>	<u>\$ 318,829</u>	<u>\$ 421,027</u>

CITY OF FALLS CHURCH, VIRGINIA  
CITY OF FALLS CHURCH PUBLIC SCHOOL BOARD  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
For the Year Ended June 30, 2012

	Balances July 1, 2011	Additions	Deductions	Balances June 30, 2012
<b>THOMAS JEFFERSON ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 18,479	\$ 32,438	\$ 24,917	\$ 26,000
Total Assets	<u>\$ 18,479</u>	<u>\$ 32,438</u>	<u>\$ 24,917</u>	<u>\$ 26,000</u>
<b>Liabilities</b>				
Amounts held for others	\$ 18,479	\$ 32,438	\$ 24,917	\$ 26,000
Total Liabilities	<u>\$ 18,479</u>	<u>\$ 32,438</u>	<u>\$ 24,917</u>	<u>\$ 26,000</u>
<b>MT. DANIEL ELEMENTARY</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 27,233	\$ 45,478	\$ 39,867	\$ 32,844
Total Assets	<u>\$ 27,233</u>	<u>\$ 45,478</u>	<u>\$ 39,867</u>	<u>\$ 32,844</u>
<b>Liabilities</b>				
Amounts held for others	\$ 27,233	\$ 45,478	\$ 39,867	\$ 32,844
Total Liabilities	<u>\$ 27,233</u>	<u>\$ 45,478</u>	<u>\$ 39,867</u>	<u>\$ 32,844</u>
<b>MARY ELLEN HENDERSON MIDDLE SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 35,782	\$ 80,819	\$ 73,247	\$ 43,354
Total Assets	<u>\$ 35,782</u>	<u>\$ 80,819</u>	<u>\$ 73,247</u>	<u>\$ 43,354</u>
<b>Liabilities</b>				
Amounts held for others	\$ 35,782	\$ 80,819	\$ 73,247	\$ 43,354
Total Liabilities	<u>\$ 35,782</u>	<u>\$ 80,819</u>	<u>\$ 73,247</u>	<u>\$ 43,354</u>
<b>GEORGE MASON HIGH SCHOOL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 284,214	\$ 531,875	\$ 497,260	\$ 318,829
Total Assets	<u>\$ 284,214</u>	<u>\$ 531,875</u>	<u>\$ 497,260</u>	<u>\$ 318,829</u>
<b>Liabilities</b>				
Amounts held for others	\$ 284,214	\$ 531,875	\$ 497,260	\$ 318,829
Total Liabilities	<u>\$ 284,214</u>	<u>\$ 531,875</u>	<u>\$ 497,260</u>	<u>\$ 318,829</u>
<b>TOTAL</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 365,708	\$ 690,610	\$ 635,291	\$ 421,027
Total Assets	<u>\$ 365,708</u>	<u>\$ 690,610</u>	<u>\$ 635,291</u>	<u>\$ 421,027</u>
<b>Liabilities</b>				
Amounts held for others	\$ 365,708	\$ 690,610	\$ 635,291	\$ 421,027
Total Liabilities	<u>\$ 365,708</u>	<u>\$ 690,610</u>	<u>\$ 635,291</u>	<u>\$ 421,027</u>



**CITY OF FALLS CHURCH, VIRGINIA  
BALANCE SHEET  
NON-MAJOR COMPONENT UNITS  
As of June 30, 2012**

	<b>Economic Development Authority</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 76,941
Accounts receivable, net	21,005
Due from primary government	<u>250,000</u>
Total Assets	<u><u>\$ 347,946</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable	\$ 500
Tax rebate payable	<u>250,000</u>
Total Liabilities	<u>250,500</u>
Fund Balances:	
Assigned	<u>97,446</u>
Total Fund Balances	<u>97,446</u>
Total Liabilities and Fund Balances	<u><u>\$ 347,946</u></u>
Amounts reported for non-major component units in the statement of net assets (Exhibit I) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	
Capital assets	<u>517,255</u>
Net Assets of Non-Major Component Units	<u><u>614,701</u></u>

**SCHEDULE 14**

**CITY OF FALLS CHURCH, VIRGINIA  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR COMPONENT UNITS  
For the Year Ended June 30, 2012**

	<b><u>Economic Development Authority</u></b>
<b>REVENUES</b>	
Revenue from use of money and property	\$ 142
Miscellaneous	<u>21,005</u>
Total Revenues	<u>21,147</u>
<b>EXPENDITURES</b>	
Current:	
Economic development	<u>33,624</u>
Total Expenditures	<u>33,624</u>
Excess/(deficiency) of revenues over expenditures	<u>(12,477)</u>
Net Change in Fund Balances	(12,477)
Fund Balances at Beginning of Year	<u>109,923</u>
Fund Balances at End of Year	<u><u>\$ 97,446</u></u>
Net change in fund balances - total governmental funds	<u>\$ (12,477)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (12,477)</u></u>

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**CITY OF FALLS CHURCH, VIRGINIA  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
FOR THE FISCAL YEAR JUNE 30, 2012**

**STATISTICAL SECTION  
(UNAUDITED)**



This section of the City's Comprehensive Annual Financial Report (CAFR) presents additional information to provide readers with context to better understand the information contained in the foregoing financial statements, note disclosures, and required supplementary information.

**Financial Trends (Tables 1-4)**

These tables contain financial trend information of up to 10 years to help readers understand how the City's financial performance and status have changed over time.

**Revenue Capacity (Tables 5-8)**

These tables contain information that will assist readers assess the City's most significant source of local revenue, real estate and personal property taxes.

**Debt Capacity (Tables 9-11)**

These schedules provide 10 years of information to help readers assess the City's levels of outstanding debt and its ability to issue additional debt in the future.

**Demographic and Economic Information (Tables 12-13)**

These tables present available demographic and economic indicators to help readers understand the environment within which the City's financial activities operate.

**Operating Information (Tables 14-16)**

These schedules contain information to help readers understand how the information provided in the City's CAFR relates to the services it provides and the activities it performs.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Net Assets by Component**  
**Last Ten Fiscal Years**  
**(Accrual Basis of Accounting)**

**TABLE 1**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009**	2010	2011	2012
Governmental activities										
Invested in capital assets, net of related debt	\$ 10,457,691	\$ 16,988,211	\$ 19,354,251	\$ 18,918,420	\$ 23,379,076	\$ 25,612,690	\$ 27,502,320	\$ 28,758,627	\$ 30,402,986	\$ 31,282,109
Restricted	-	-	-	-	-	-	-	70,153	152,686	110,929
Unrestricted	16,655,649	13,159,880	15,126,942	19,001,599	16,859,105	14,477,291	9,312,853	4,027,491	8,624,721	15,584,623
Total Governmental Activities Net Assets	<u>27,113,340</u>	<u>30,148,091</u>	<u>34,481,193</u>	<u>37,920,019</u>	<u>40,238,181</u>	<u>40,089,981</u>	<u>36,815,173</u>	<u>32,856,271</u>	<u>39,180,393</u>	<u>46,977,661</u>
Business-type activities										
Invested in capital assets, net of related debt	44,398,730	47,421,241	49,170,424	50,534,282	50,471,649	51,078,151	60,392,743	60,677,853	67,031,493	71,450,170
Unrestricted	32,160,088	23,376,153	22,433,855	21,757,554	26,947,631	11,185,756	21,437,246	28,109,384	29,197,725	30,167,055
Total Business-type Activities Net Assets	<u>76,558,818</u>	<u>70,797,394</u>	<u>71,604,279</u>	<u>72,291,836</u>	<u>77,419,280</u>	<u>62,263,907</u>	<u>81,829,989</u>	<u>88,787,237</u>	<u>96,229,218</u>	<u>101,617,225</u>
Primary government										
Invested in capital assets, net of related debt	54,856,421	64,409,452	68,524,675	69,452,702	73,850,725	76,690,841	87,895,063	89,436,480	97,434,479	102,732,279
Restricted	-	-	-	-	-	-	-	70,153	152,686	110,929
Unrestricted	48,815,737	36,536,033	37,560,797	40,759,153	43,806,736	25,663,047	30,750,099	32,136,875	37,822,446	45,751,678
Total Primary Government Net Assets	<u>\$ 103,672,158</u>	<u>\$ 100,945,485</u>	<u>\$ 106,085,472</u>	<u>\$ 110,211,855</u>	<u>\$ 117,657,461</u>	<u>\$ 102,353,888</u>	<u>\$ 118,645,162</u>	<u>\$ 121,643,508</u>	<u>\$ 135,409,611</u>	<u>\$ 148,594,886</u>

\*\*Note: The City restated net assets as of June 30, 2009 and 2010. The restatements are not included in the prior data.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Changes in Net Assets**  
**Last Ten Fiscal Years**  
**(Accrual Basis of Accounting)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009**	2010	2011	2012
<b>Expenses</b>										
Governmental Activities										
General government administration	\$ 3,533,147	\$ 3,883,989	\$ 3,935,683	\$ 4,129,020	\$ 4,786,763	\$ 5,482,600	\$ 5,117,721	\$ 4,964,439	\$ 4,493,498	\$ 4,788,719
Judicial administration	1,011,397	1,065,276	1,156,203	1,245,977	1,291,039	1,398,558	1,522,844	1,517,515	1,531,960	1,610,517
Public safety	6,794,693	6,638,269	7,017,277	6,995,489	7,982,071	8,195,664	8,809,226	9,363,766	8,954,827	9,434,025
Public works	4,747,665	4,150,055	4,127,607	6,332,313	5,288,565	6,489,819	5,639,536	5,013,021	5,920,960	5,336,869
Health and welfare	2,666,535	2,784,179	2,740,167	3,018,356	3,316,750	2,626,378	2,365,068	2,201,229	2,105,699	2,003,105
Education and payments to Schools	20,248,502	21,177,645	23,400,685	26,379,915	29,072,459	30,878,770	31,371,993	30,768,947	29,276,052	29,064,131
Parks, recreation, and cultural	2,759,046	2,989,439	3,158,648	3,306,719	3,598,289	3,862,621	4,745,375	4,486,619	4,449,481	4,392,338
Community development	823,760	841,264	1,163,151	1,132,733	1,700,846	2,231,172	2,379,992	1,435,053	1,439,852	1,745,896
Economic development	429,107	290,087	294,554	373,963	359,538	385,564	395,505	351,233	322,405	323,036
Interest expense	1,397,595	1,589,430	2,220,727	1,661,368	1,746,086	1,713,885	1,661,998	1,555,466	1,410,283	1,278,045
Total Governmental Activities Expenses	<u>44,411,447</u>	<u>45,409,633</u>	<u>49,214,702</u>	<u>54,575,853</u>	<u>59,142,406</u>	<u>63,265,031</u>	<u>64,009,258</u>	<u>61,657,288</u>	<u>59,905,017</u>	<u>59,976,681</u>
Business-Type Activities										
Water	15,253,871	14,442,756	14,878,376	16,289,183	17,195,584	31,372,591	17,509,332	17,240,177	17,690,104	19,271,724
Sewer	1,952,604	2,586,301	2,028,151	2,088,637	2,781,966	5,381,002	1,989,719	2,078,222	1,937,681	2,887,321
Total Business-Type Activities Expenses	<u>17,206,475</u>	<u>17,029,057</u>	<u>16,906,527</u>	<u>18,377,820</u>	<u>19,977,550</u>	<u>36,753,593</u>	<u>19,499,051</u>	<u>19,318,399</u>	<u>19,627,785</u>	<u>22,159,045</u>
Total Primary Government	<u>\$ 61,617,922</u>	<u>\$ 62,438,690</u>	<u>\$ 66,121,229</u>	<u>\$ 72,953,673</u>	<u>\$ 79,119,956</u>	<u>\$ 100,018,624</u>	<u>\$ 83,508,309</u>	<u>\$ 80,975,687</u>	<u>\$ 79,532,802</u>	<u>\$ 82,135,726</u>
<b>Program Revenues</b>										
Governmental Activities										
Charges for services:										
Parks, recreation, and cultural	\$ 654,627	\$ 677,807	\$ 718,591	\$ 806,936	\$ 851,479	\$ 890,329	\$ 1,398,036	\$ 1,565,668	\$ 1,822,851	\$ 1,784,380
Judicial Administration	302,394	670,874	672,226	704,344	702,289	985,851	1,039,920	1,111,368	1,189,447	1,106,413
Public safety	1,001,830	1,007,262	1,414,384	773,476	970,613	606,394	510,075	637,012	640,353	1,054,488
Other	315,589	348,563	403,120	362,644	376,376	478,329	410,406	492,204	790,385	957,930
Operating grants and contributions	2,705,665	3,045,368	2,806,914	3,099,444	3,661,138	3,538,063	3,545,362	2,249,881	2,151,480	2,133,526
Capital grants and contributions	749,450	-	-	-	138,488	100,534	1,156	592,880	560,269	807,771
Total Governmental Activities Program Revenues	<u>5,729,555</u>	<u>5,749,874</u>	<u>6,015,235</u>	<u>5,746,844</u>	<u>6,700,383</u>	<u>6,599,500</u>	<u>6,904,955</u>	<u>6,649,013</u>	<u>7,154,785</u>	<u>7,844,508</u>
Business-Type Activities										
Charges for services:										
Water	13,588,498	13,317,162	17,150,392	18,936,968	22,321,609	20,289,970	21,366,915	19,846,413	21,710,937	22,770,417
Sewer	1,724,179	2,009,726	2,731,556	2,581,621	3,602,944	2,504,749	2,755,257	2,638,970	2,641,877	3,073,519
Operating grants and contributions	-	115,000	-	-	25,843,936	-	-	-	-	-
Capital grants and contributions	537,310	130,691	1,907,477	1,532,935	839,993	479,911	236,655	284,330	2,717,914	1,496,722
Total Business-Type Activities Program Revenues	<u>15,849,987</u>	<u>15,572,579</u>	<u>21,789,425</u>	<u>23,051,524</u>	<u>52,608,482</u>	<u>23,274,630</u>	<u>24,358,827</u>	<u>22,769,713</u>	<u>27,070,728</u>	<u>27,340,658</u>
Total Primary Government Program Revenues	<u>\$ 21,579,542</u>	<u>\$ 21,322,453</u>	<u>\$ 27,804,660</u>	<u>\$ 28,798,368</u>	<u>\$ 59,308,865</u>	<u>\$ 29,874,130</u>	<u>\$ 31,263,782</u>	<u>\$ 29,418,726</u>	<u>\$ 34,225,513</u>	<u>\$ 35,185,166</u>
<b>Net (Expense)/Revenue</b>										
Governmental Activities	\$ (38,681,892)	\$ (39,659,759)	\$ (43,199,467)	\$ (48,829,009)	\$ (52,442,023)	\$ (56,665,531)	\$ (57,104,303)	\$ (55,008,275)	\$ (52,750,232)	\$ (52,132,173)
Business-Type Activities	(1,356,488)	(1,456,478)	4,882,898	4,673,704	32,630,932	(13,478,963)	4,859,776	3,451,314	7,442,943	5,181,613
Total primary government net (expense)/revenue	<u>\$ (40,038,380)</u>	<u>\$ (41,116,237)</u>	<u>\$ (38,316,569)</u>	<u>\$ (44,155,305)</u>	<u>\$ (19,811,091)</u>	<u>\$ (70,144,494)</u>	<u>\$ (52,244,527)</u>	<u>\$ (51,556,961)</u>	<u>\$ (45,307,289)</u>	<u>\$ (46,950,560)</u>

\*\*Note: The City restated net assets as of June 30, 2009 and 2010. The restatements are not included in the prior data.

TABLE 2 (Continued)

**CITY OF FALLS CHURCH, VIRGINIA**  
**Changes in Net Assets**  
**Net Assets by Component**  
**(Accrual Basis of Accounting)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009**	2010	2011	2012
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental Activities										
Taxes:										
Real property	\$ 20,298,536	\$ 22,736,340	\$ 26,248,419	\$ 29,624,514	\$ 32,844,128	\$ 33,878,025	\$ 34,828,753	\$ 36,000,253	\$ 38,879,467	\$ 39,381,606
Personal property	2,501,478	2,700,860	3,137,750	3,327,582	3,303,768	3,287,380	3,539,667	3,381,964	3,678,885	4,156,728
Business licenses, based on gross receipts	2,343,068	2,296,618	2,913,022	2,936,648	3,053,349	3,138,550	2,819,183	2,698,584	3,284,068	3,259,871
Local sales & use	3,292,718	3,492,983	3,828,328	4,263,902	4,222,823	3,962,354	2,042,219	3,035,145	3,619,912	3,899,279
Consumer's utility	1,451,863	1,655,968	1,645,515	1,595,837	2,018,214	2,143,666	2,084,240	2,063,222	2,180,644	2,102,986
Motor vehicle decals	233,543	200,940	223,394	202,229	216,892	208,790	226,978	226,723	238,177	319,335
Real estate recordation taxes	137,924	203,335	232,243	213,868	301,751	712,026	446,906	369,453	371,514	475,057
Occupancy, tobacco, and other	2,242,346	2,305,965	2,454,441	3,150,953	2,754,408	3,468,099	3,139,911	3,298,074	3,789,771	3,833,289
Grants and contributions not restricted to specific programs	1,894,552	2,211,120	1,495,015	1,535,838	1,983,445	2,038,599	2,020,878	2,020,878	2,020,878	2,020,878
Revenue from use of money and property	252,369	122,565	546,512	569,561	855,866	466,667	83,428	85,531	75,495	105,827
Other	383,515	141,942	43,674	71,029	150,420	137,001	55,159	72,104	110,572	229,637
Special item - gain on sale of capital assets	-	-	-	-	-	-	-	-	735,367	-
Transfers	4,713,374	4,625,874	4,764,256	4,775,874	3,055,121	3,076,174	2,404,041	(2,202,601)	89,604	150,000
Total Governmental Activities	39,745,286	42,694,510	47,532,569	52,267,835	54,760,185	56,517,331	53,691,363	51,049,330	59,074,354	59,934,493
Business-Type Activities										
Revenue from use of money and property	701,016	377,777	650,041	759,782	1,361,932	1,393,656	356,324	63,385	213,217	281,920
Other	34,571	30,651	38,202	29,945	33,637	6,108	204,136	(28,339)	125,305	74,474
Insurance recovery of legal costs, net	-	-	-	-	-	-	-	1,025,632	-	-
Transfers	(4,713,374)	(4,713,374)	(4,764,256)	(4,775,874)	(3,055,121)	(3,076,174)	(2,404,041)	2,202,601	(89,604)	(150,000)
Total Business-Type Activities	(3,977,787)	(4,304,946)	(4,076,013)	(3,986,147)	(1,659,552)	(1,676,410)	(1,843,581)	3,263,279	248,918	206,394
Total Primary Government	\$ 35,767,499	\$ 38,389,564	\$ 43,456,556	\$ 48,281,688	\$ 53,100,633	\$ 54,840,921	\$ 51,847,782	\$ 54,312,609	\$ 59,323,272	\$ 60,140,887
<b>Change in Net Assets</b>										
Governmental Activities	\$ 1,063,394	\$ 3,034,751	\$ 4,333,102	\$ 3,438,826	\$ 2,318,162	\$ (148,200)	\$ (3,412,940)	\$ (3,958,945)	\$ 6,324,122	\$ 7,802,320
Business-Type Activities	(5,334,275)	(5,761,424)	806,885	687,557	30,971,380	(15,155,373)	3,016,195	6,714,593	7,691,861	5,388,007
Total Primary Government	\$ (4,270,881)	\$ (2,726,673)	\$ 5,139,987	\$ 4,126,383	\$ 33,289,542	\$ (15,303,573)	\$ (396,745)	\$ 2,755,648	\$ 14,015,983	\$ 13,190,327

\*Note: The City of Falls Church implemented GASB 34 for fiscal years ended June 30, 2003 and later.

\*\*Note: The City restated net assets as of June 30, 2009 and 2010. The restatements are not included in the prior data.



**CITY OF FALLS CHURCH, VIRGINIA**  
**Fund Balances of Governmental Funds**  
**Last Ten Years**  
**(Modified Accrual Basis of Accounting)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011*	2012
General Fund										
Reserved	\$ 795,149	\$ 1,397,945	\$ 1,161,401	\$ 1,024,193	\$ 1,531,626	\$ 1,494,647	\$ 1,265,850	\$ 1,124,698	\$ -	\$ -
Unreserved	16,057,559	11,821,263	12,631,956	15,129,189	12,666,003	9,830,681	2,894,988	2,674,638	-	-
Nonspendable	-	-	-	-	-	-	-	-	251,358	280,819
Restricted	-	-	-	-	-	-	-	-	247,364	110,929
Assigned	-	-	-	-	-	-	-	-	380,682	760,861
Unassigned	-	-	-	-	-	-	-	-	7,041,658	13,716,496
Total General Fund	<u>\$ 16,852,708</u>	<u>\$ 13,219,208</u>	<u>\$ 13,793,357</u>	<u>\$ 16,153,382</u>	<u>\$ 14,197,629</u>	<u>\$ 11,325,328</u>	<u>\$ 4,160,838</u>	<u>\$ 3,799,336</u>	<u>\$ 7,921,062</u>	<u>\$ 14,869,105</u>
All Other Governmental Funds										
Reserved	151,496	20,034,668	5,151,445	2,281,152	2,281,152	543,425	1,423,401	395,238	-	-
Unreserved, reported in:										
Capital Projects Fund	150,342	4,918,860	4,530,899	1,375,326	1,375,326	4,643,132	4,513,944	656,967	-	-
Affordable Dwelling Units Fund	-	-	414,219	431,941	504,325	381,159	537,799	539,152	-	-
Restricted	-	-	-	-	-	-	-	-	134,686	7,519,397
Committed	-	-	-	-	-	-	-	-	1,401,402	856,344
Total All Other Governmental Funds	<u>\$ 301,838</u>	<u>\$ 24,953,528</u>	<u>\$ 10,096,563</u>	<u>\$ 4,088,419</u>	<u>\$ 4,160,803</u>	<u>\$ 5,567,716</u>	<u>\$ 6,475,144</u>	<u>\$ 1,591,357</u>	<u>\$ 1,536,088</u>	<u>\$ 8,375,741</u>

\*In FY2011, the City implemented GASB Statement No. 54

TABLE 4

**CITY OF FALLS CHURCH, VIRGINIA**  
**Information About Changes in Fund Balances - Governmental Funds**  
**Last Ten Years**  
**(Modified Accrual Basis of Accounting)**

	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Revenues</b>										
General property taxes	\$ 22,502,555	\$ 24,985,137	\$ 28,777,104	\$ 33,248,625	\$ 35,601,262	\$ 37,603,499	\$ 38,456,297	\$ 39,476,351	\$ 42,146,436	\$ 43,870,383
Other local taxes	9,568,442	10,130,055	11,284,301	12,350,831	12,554,667	13,621,231	10,759,416	11,610,183	13,379,038	13,868,919
Permit, privilege fees, and regulatory licenses	415,000	361,371	479,042	442,556	757,587	440,771	322,639	511,285	404,899	634,184
Fines and forfeitures	763,707	996,688	1,302,463	649,377	344,063	482,961	481,319	610,267	727,990	763,353
Revenue from use of money and property	252,369	122,565	546,512	569,561	855,866	466,667	83,428	85,531	75,495	105,827
Charges for services	1,191,629	1,265,181	1,292,015	1,423,258	1,655,668	1,869,435	2,387,814	2,528,088	2,837,487	2,844,768
Miscellaneous	440,694	111,457	148,820	62,800	591,414	108,705	65,129	150,691	117,019	204,908
Gifts and contributions	-	-	-	-	-	1,342,652	1,243,431	42,328	77,687	218,930
Recovered costs*	1,976,842	2,184,999	2,236,692	2,012,726	1,469,148	1,341,695	1,429,477	1,869,125	461,219	540,765
Intergovernmental:										
Commonwealth	3,763,634	4,142,091	3,018,725	4,633,990	4,025,954	4,143,211	4,013,417	4,036,330	3,855,857	3,913,214
Federal	1,582,673	1,083,137	851,358	1,001,162	1,105,665	207,090	304,030	719,247	798,217	896,997
<b>Total Revenues</b>	<b>42,457,545</b>	<b>45,382,681</b>	<b>49,937,032</b>	<b>56,394,886</b>	<b>58,961,294</b>	<b>61,627,917</b>	<b>59,546,397</b>	<b>61,639,426</b>	<b>64,881,344</b>	<b>67,862,248</b>
<b>Expenditures</b>										
General government administration	4,786,596	5,193,514	5,251,876	5,722,648	5,674,088	6,058,525	5,874,181	5,866,102	4,143,809	4,439,532
Judicial administration	962,887	1,025,090	1,094,018	1,205,050	1,230,303	1,352,188	1,459,252	1,457,627	1,486,558	1,594,048
Public safety	6,371,972	6,240,752	6,996,497	6,704,083	7,644,603	8,185,464	8,513,351	8,896,616	8,787,149	9,389,094
Public works	4,456,901	4,768,075	4,147,696	5,410,065	4,555,196	5,834,441	5,478,550	5,256,273	5,325,810	5,266,144
Health and welfare	2,664,254	2,760,756	2,719,107	3,021,934	3,143,233	2,608,446	2,371,178	2,229,111	2,121,788	1,992,565
Education and payments to Schools	19,771,459	20,702,332	22,930,601	25,076,471	27,636,683	29,567,369	29,670,612	29,347,120	27,874,069	27,685,031
Parks, recreation, and cultural	2,633,689	2,849,028	2,962,822	3,123,316	3,290,829	3,659,333	4,359,681	4,133,292	4,190,243	4,100,421
Community development	1,138,518	1,196,845	1,424,396	1,430,897	1,753,211	2,175,626	2,227,411	1,419,982	1,416,195	1,754,043
Economic development	428,264	277,471	292,876	369,331	353,294	378,698	398,893	346,937	316,857	321,839
Capital outlay	527,228	6,394,602	19,091,875	9,612,382	4,141,088	2,590,974	2,398,084	1,021,914	931,504	1,197,634
Debt Service										
Principal	1,812,957	1,907,025	2,135,828	3,350,886	3,396,430	3,547,623	3,776,678	3,651,127	3,649,375	2,426,259
Interest and other charges	1,419,397	1,456,499	1,956,871	1,905,769	1,826,240	1,710,747	1,679,629	1,578,008	1,445,377	1,649,369
<b>Total Expenditures</b>	<b>46,974,122</b>	<b>54,771,989</b>	<b>71,004,463</b>	<b>66,932,832</b>	<b>64,645,198</b>	<b>67,669,434</b>	<b>68,207,500</b>	<b>65,204,109</b>	<b>61,688,734</b>	<b>61,815,979</b>
Excess of Revenues Over (Under) Expenditures	(4,516,577)	(9,389,308)	(21,067,431)	(10,537,946)	(5,683,904)	(6,041,517)	(8,661,103)	(3,564,683)	3,192,610	6,046,269
<b>Other Financing Sources (Uses)</b>										
Transfers in	4,713,374	4,713,374	4,764,256	4,775,874	3,055,121	3,076,174	2,404,041	-	150,000	150,000
Transfers out	-	-	-	-	-	-	-	(2,202,601)	(60,396)	-
Proceeds from borrowing	-	25,000,000	1,875,500	1,935,000	-	2,428,800	-	-	-	-
Debt issuance	-	7,340,000	4,808,034	35,811	6,347,686	-	-	-	-	24,120,000
Payment to refunded bond escrow	-	(8,258,750)	(4,660,000)	-	(6,181,352)	-	-	-	-	(17,437,909)
Premium from issuance of bonds	-	1,170,146	-	70,192	44,215	-	-	-	-	909,336
Premium paid to refund bonds	-	-	(42,425)	-	-	-	-	-	-	-
Original issue discount	-	-	-	-	(24,351)	-	-	-	-	-
Proceeds from capital leases	299,932	442,728	39,250	72,950	-	6,550	-	-	-	-
Proceeds from sale of assets	-	-	-	-	-	-	-	521,995	784,243	-
<b>Total Other Financing Sources (Uses)</b>	<b>5,013,306</b>	<b>30,407,498</b>	<b>6,784,615</b>	<b>6,889,827</b>	<b>3,241,319</b>	<b>5,511,524</b>	<b>2,404,041</b>	<b>(1,680,606)</b>	<b>873,847</b>	<b>7,741,427</b>
<b>Special Item</b>										
Contributions to OPEB Trust Fund in excess of ARC	-	-	-	-	-	(376,176)	-	-	-	-
<b>Net Change in Fund Balance</b>	<b>\$ 496,729</b>	<b>\$ 21,018,190</b>	<b>\$ (14,282,816)</b>	<b>\$ (3,648,119)</b>	<b>\$ (2,442,585)</b>	<b>\$ (906,169)</b>	<b>\$ (6,257,062)</b>	<b>\$ (5,245,289)</b>	<b>\$ 4,066,457</b>	<b>\$ 13,787,696</b>
Debt Service as a Percentage of Non-Capital Expenditures	6.97%	7.11%	8.00%	9.13%	8.57%	8.09%	8.24%	8.18%	8.38%	6.69%

\*In FY2011, administrative costs charged to the Water Fund and Sewer Fund are classified as reduction in expenditures. In prior years, they were classified as revenues.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Assessed Value and Estimated Actual Value of Taxable Property**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30,	Real Property (1)		Personal Property (2)		Total Taxable Assessed Value	Total Direct Tax Rate (3)	Estimated Actual Taxable Value (4)	Assessed Value as a Percentage of Actual Value
	Residential	Commercial	Motor Vehicles	Other				
2003	\$ 1,328,308,558	\$ 439,902,572	\$ 67,395,046	\$ 43,633,100	\$ 1,879,239,276	\$ 1.34	\$ 1,879,239,276	100%
2004	1,567,336,942	531,362,520	107,947,427	29,484,619	2,236,131,508	1.31	2,236,131,508	100%
2005	1,919,327,908	597,294,900	96,525,026	27,654,180	2,640,802,014	1.23	2,640,802,014	100%
2006	2,237,877,000	695,254,574	98,754,264	28,887,704	3,060,773,542	1.17	3,060,773,542	100%
2007	2,416,612,400	843,540,824	92,006,545	32,870,681	3,385,030,450	1.15	3,385,030,450	100%
2008	2,450,402,450	896,737,950	84,474,526	35,890,466	3,467,505,392	1.15	3,467,505,392	100%
2009	2,370,165,500	859,139,200	89,133,212	29,936,779	3,348,374,691	1.18	3,348,374,691	100%
2010	2,322,521,050	748,726,900	90,559,076	29,022,854	3,190,829,880	1.29	3,190,829,880	100%
2011	2,394,344,500	699,546,159	95,126,548	28,060,359	3,217,077,566	1.39	3,217,077,566	100%
2012	2,475,618,900	712,880,090	99,424,184	29,155,268	3,317,078,442	1.41	3,317,078,442	100%

## Notes:

- (1) Source: Falls Church Office of Real Estate Assessment. Amounts are reported net of exempt property.  
(2) Source: Falls Church Treasurer's Office. Amounts are reported net of exempt property.  
(3) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.  
(4) Virginia code requires assessment at full market value.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Information About Revenue Rates**  
**Last Ten Fiscal Years**

**TABLE 6**

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<b>Fiscal Year Ended June 30,</b>	<b>Real Property (1st half of the Fiscal Year)</b>	<b>Real Property (2nd Half of the Fiscal Year)</b>	<b>Personal Property</b>	<b>Total Direct Tax Rate (1)</b>
2003	\$ 1.13	\$ 1.13	\$ 4.71	\$ 1.34
2004	1.13	1.08	4.71	1.31
2005	1.08	1.03	4.71	1.23
2006	1.03	1.01	4.71	1.17
2007	1.01	1.01	4.71	1.15
2008	1.01	1.03	4.71	1.15
2009	1.03	1.07	4.71	1.18
2010	1.07	1.24	4.71	1.29
2011	1.24	1.27	4.71	1.39
2012	1.27	1.27	4.84	1.41

**Notes:**

(1) Total Direct Tax Rate is calculated using the weighted average method. Rates are per \$100 of valuation.

TABLE 7

**CITY OF FALLS CHURCH, VIRGINIA**  
**Principal Real Property Taxpayers**  
**Current Calendar Year and Nine Calendar Years Ago**

Taxpayer	2012			2003		
	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value
TMW Pearson Square LLC	\$77,088,200	1	2.39%			
Falls Church Country Club (Apartments)	69,432,300	2	2.15%	46,500,000	1	2.56%
Eden Center, Inc.	51,217,100	3	1.59%	35,000,000	2	1.92%
Waterford Falls Church II LLC	32,141,200	4	1.00%			
BJ'S GL I, LLC & II, LLC	30,175,000	5	0.93%	9,201,200	9	0.51%
James E. Koons	24,796,800	6	0.77%	15,445,800	5	0.85%
West Falls Parcel, Inc	20,846,000	7	0.65%	15,450,000	4	0.85%
Aimco Merrill House, LLC	20,406,100	8	0.63%	13,700,000	8	0.75%
Federal Realty Investment Trust	19,147,300	9	0.59%	15,160,000	7	0.83%
Kahn B Franklin et al	18,854,000	10	0.58%	16,860,000	3	0.93%
Kaiser Foundation Health Plan, Inc.				15,426,100	6	0.85%
Zager, Daniel				8,800,000	10	0.48%
Totals	<u>\$ 364,104,000</u>		<u>11.27%</u>	<u>\$ 191,543,100</u>		<u>10.53%</u>

Source: Fall Church Office of Real Estate Assessment. Values as of January 1.

TABLE 8

**CITY OF FALLS CHURCH, VIRGINIA**  
**Property Tax Levies and Collections**  
**Last Ten Fiscal Years**

Fiscal Year Ended June 30	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2003	\$ 22,970,901	NA	NA	NA	\$ 22,967,494	99.99%
2004	25,481,839	\$ 23,705,292	93.03%	\$ 1,772,384	25,477,676	99.98%
2005	28,698,448	27,539,424	95.96%	1,151,030	28,690,454	99.97%
2006	32,599,352	31,271,297	95.93%	1,291,824	32,563,121	99.89%
2007	35,866,351	34,449,695	96.05%	1,376,558	35,826,253	99.89%
2008	37,149,427	36,183,444	97.40%	893,955	37,077,399	99.81%
2009	37,854,339	37,062,585	97.91%	691,214	37,753,799	99.73%
2010	39,512,069	38,778,261	98.14%	565,537	39,343,798	99.57%
2011	42,211,306	41,495,508	98.30%	506,088	42,001,596	99.50%
2012	44,327,763	43,620,632	98.40%	-	43,620,632	98.40%

Notes: Property tax levies and collections include real estate taxes and personal property taxes, and excludes Commonwealth of Virginia Personal Property Tax Relief Act (PPTRA) reimbursement.

NA - Not available. The City implemented a new tax system in FY2003 and the information required for the accurate presentation of these data is not available.

**CITY OF FALLS CHURCH, VIRGINIA**  
**Ratio of Outstanding Debt by Type**  
**Last Ten Fiscal Years**

Fiscal Year	Governmental Activities			Business-Type Activities			Total Primary Government	Percentage of Personal Income (1)	Per Capita
	General Obligation Bonds	Capital Leases	Note Payable	General Obligation Bonds	Note Payable*	Revenue Bonds			
2003	\$ 25,495,000	\$ 321,817	\$ -	\$ -	\$ -	\$ -	\$ 25,816,817	0.05%	\$ 2,333
2004	47,950,000	597,519	-	-	-	-	48,547,519	0.08%	4,533
2005	47,171,034	450,942	852,500	-	-	7,000	48,481,476	0.07%	4,386
2006	46,160,418	317,326	652,500	-	-	6,894	47,137,138	0.07%	4,245
2007	43,644,216	152,147	435,000	5,050,000	-	6,759	49,288,122	0.07%	4,334
2008	42,827,780	73,810	217,500	12,820,000	-	2,432,409	58,371,499	0.08%	5,013
2009	39,309,481	32,932	-	14,085,814	10,325,018	3,002,816	53,428,227	0.07%	4,432
2010	35,681,948	9,338	-	19,819,925	8,892,713	2,859,769	67,263,693	0.09%	5,454
2011	32,039,513	-	-	25,298,037	7,842,215	2,712,398	67,892,163	0.09%	5,402
2012	37,640,183	-	-	23,902,864	6,979,830	2,482,949	71,005,826	N/A	5,650

(1) Based on personal income for Fairfax, Fairfax City and Falls Church shown on Table 12.

NA - Not available. There is no census data available for personal income.

\*\*Note: The City restated net assets as of June 30, 2009 and 2010. The restatements are not included in the prior data.

TABLE 10

**CITY OF FALLS CHURCH, VIRGINIA**  
**Ratio of General Bonded Debt Outstanding**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>General Obligation Bonds</b>	<b>Less: Amounts Available in Debt Service Funds</b>	<b>Total</b>	<b>Percentage of Estimated Actual Taxable Value of Property</b>	<b>Per Capita</b>
2003	\$ 25,495,000	\$ -	\$ 25,495,000	1.36%	\$ 2,304
2004	47,950,000	-	47,950,000	2.14%	4,478
2005	47,171,034	-	47,171,034	1.79%	4,267
2006	46,160,418	-	46,160,418	1.51%	4,157
2007	43,644,216	-	43,644,216	1.29%	3,838
2008	55,647,780	-	55,647,780	1.60%	4,779
2009	53,395,295	-	53,395,295	1.59%	4,430
2010	55,501,873	-	55,501,873	1.74%	4,501
2011	57,337,550	-	57,337,550	1.78%	4,563
2012	61,543,047	-	61,543,047	1.86%	4,897



**CITY OF FALLS CHURCH, VIRGINIA**  
**Legal Debt Margin Information**  
**Last Ten Fiscal Years**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Debt limit	\$ 182,071,680	\$ 232,021,812	\$ 271,054,630	\$ 339,609,980	\$ 356,527,840	\$ 359,008,750	\$ 333,108,780	\$ 328,521,957	\$ 312,665,676	\$ 325,124,867
Total net debt applicable to limit	<u>25,816,817</u>	<u>48,547,519</u>	<u>48,474,476</u>	<u>47,130,244</u>	<u>49,281,363</u>	<u>55,939,090</u>	<u>63,753,245</u>	<u>64,403,924</u>	<u>65,179,765</u>	<u>68,522,877</u>
Legal debt margin	<u>\$ 134,121,680</u>	<u>\$ 184,850,778</u>	<u>\$ 224,894,212</u>	<u>\$ 295,965,764</u>	<u>\$ 300,880,060</u>	<u>\$ 300,928,560</u>	<u>\$ 277,606,907</u>	<u>\$ 273,020,084</u>	<u>\$ 263,342,192</u>	<u>\$ 256,601,990</u>
Total net debt applicable to the limit as a percentage of debt limit	14%	21%	18%	14%	14%	16%	19%	20%	21%	21%

**Legal Debt Margin Calculation for Fiscal Year 2012**

Taxable assessed value as of January 1, 2012	\$ 3,251,248,668
Debt limit (10% of total assessed value)	325,124,867
Debt applicable to limit:	
General obligation bonds	61,543,047
Notes payable	<u>6,979,830</u>
Total net debt applicable to limit	<u>68,522,877</u>
Legal debt margin	<u>\$ 256,601,990</u>

TABLE 12

**CITY OF FALLS CHURCH, VIRGINIA**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population (1)</b>	<b>Personal Income (2)</b>	<b>Per Capita Personal Income (3)</b>	<b>Median Age (4)</b>	<b>School Enrollment (5)</b>	<b>Unemployment Rate (6)</b>
2003	11,067	\$ 56,954,646	\$ 55,019	NA	1,817	3.5
2004	10,709	60,930,780	58,436	NA	1,846	3.4
2005	11,054	65,598,555	62,404	40.1	1,848	3.4
2006	11,104	69,554,932	66,165	NA	1,845	3
2007	11,373	73,256,103	69,086	NA	1,870	3.0
2008	11,645	75,302,775	69,886	NA	1,905	4.1
2009	12,054	71,954,372	65,452	NA	1,941	7.3
2010	12,332	75,161,493	67,045	NA	2,010	6.3
2011	12,567	78,392,046	69,008	NA	2,069	7.7
2012	12,567	NA	NA	NA	2,122	6.7

(1) Source: For 2001-2009 and 2011 Weldon Cooper Center for Public Service; numbers are estimates as of July 1. 2012 uses the same data as 2011. Year 2010 is based on U.S. Census estimate as of April 1, 2010.

(2) Source: US Department of Commerce, Bureau of Economic Analysis for Fairfax, Fairfax City & Falls Church.

(3) Source: US Department of Commerce, Bureau of Economic Analysis. Per Capita Rate for Fairfax, Fairfax City and Falls Church.

(4) Source: Weldon Cooper Center for Public Service; numbers are estimates as of July 1.

(5) Source: City of Falls Church Public School Board. These numbers do not include pre-kindergarten.

(6) Source: Virginia Employment Commission

NA - Not available.

There is no data available for Education Level in Years of Formal Schooling.

TABLE 13

**CITY OF FALLS CHURCH, VIRGINIA**  
**Principal Employers**  
**Current and Five Years Ago**

Employer	2012			2006		
	Employees (1)	Rank	Percentage of Total City Employment (2)	Employees	Rank	Percentage of Total City Employment
Falls Church City Schools	529	1	7.05%	375	1	5.92%
Falls Church City Government	312	2	4.16%	261	3	4.12%
Kaiser Permanente	260	3	3.46%	375	2	5.92%
Tax Analysts	200	4	2.66%	150	5	2.37%
Koon's Ford & Nissan	175	5	2.33%	196	4	3.10%
VL Home Health Care, Inc	160	6	2.13%			
BG Healthcare Services	150	7	2.00%			
Care Options	130	8	1.73%			
Giant Food Store	126	9	1.68%	67	9	1.06%
BJ's Wholesale Club	125	10	1.67%			
Don Beyer Volvo				104	6	1.64%
United States Postal Service				97	7	1.53%
Knowlogy				85	8	1.34%
Center for Multicultural Human Services				58	10	0.92%
Total	2,247		28.88%	1,768		27.93%

1. Source: Finance and Economic Development Office

2. Total employment estimate of 7,507 for 2012 and 6,331 for 2006 from Virginia Employment Commission.

3. There is no employment data available from 2002. 2006 is the first year when this data was available.

**TABLE 14**

**CITY OF FALLS CHURCH, VIRGINIA**  
**Full-Time Equivalent City Government Employees by Function**  
**Last Ten Fiscal Years**

Function	Full-Time Equivalent Employees as of June 30									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
General government administration	34.75	34.75	34.75	37.75	37.75	38.25	38.87	37.88	35.92	35.55
Judicial administration	13.10	13.10	12.60	11.60	17.01	17.01	17.01	13.26	13.26	12.76
Public safety	57.00	57.40	57.00	58.40	51.60	53.35	53.60	55.20	52.20	51.20
Public works	27.41	28.41	28.41	28.96	31.58	32.58	34.08	35.75	28.00	28.60
Health and welfare	8.84	9.09	9.09	8.00	9.75	8.85	8.85	7.85	5.90	5.00
Parks, recreation, and cultural	43.97	43.97	42.09	44.69	34.48	36.35	36.35	33.35	31.55	30.05
Community development	9.75	9.75	12.75	12.75	13.75	13.75	13.81	13.81	13.81	13.81
Economic development	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	2.00	2.00
Water	51.44	53.34	52.04	52.04	52.32	52.32	52.27	53.65	56.98	56.98
Sewer	3.70	3.75	4.05	4.10	4.10	4.10	4.15	4.10	4.10	4.10
	<u>252.96</u>	<u>256.56</u>	<u>255.78</u>	<u>261.29</u>	<u>255.34</u>	<u>259.56</u>	<u>261.99</u>	<u>257.85</u>	<u>243.72</u>	<u>240.05</u>

Notes:

Source: Adopted Budget for City of Falls Church.

NA - Not available.

TABLE 15

**CITY OF FALLS CHURCH, VIRGINIA**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years**

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>General government administration</b>										
Communications										
Number of Media Releases	77	78	122	94	109	94	90	95	118	167
Number of Periodical Publications	5	4	6	9	10	10	10	NA	NA	2
eFOCUS Newsletter Subscribers	NA	NA	NA	1,628	1,580	1,454	1,267	NA	NA	1,388
<b>Judicial Administration</b>										
<u>Court Services</u>										
Aurora House Recidivism (%)	-	0%	14%	10%	25%	16%	29%	0%	8%	0%
Aurora House Program Completion (%)	1	88%	90%	62%	50%	83%	78%	73%	92%	83%
Court Services Juvenile Recidivism (%)	0	4%	8%	14%	13%	9%	22%	16%	16%	10%
Court Services Adult Recidivism (%)	-	15%	7%	22%	20%	15%	33%	23%	23%	6%
<b>Public safety</b>										
<u>Police</u>										
Part I Crimes (1)	405	428	370	370	365	384	441	329	268	270
Calls for Service	18,223	22,317	25,347	25,171	23,407	26,467	28,319	25,862	26,485	26,189
Accidents	295	282	278	257	255	231	231	235	224	188
Traffic Enforcement	4,966	5,739	5,243	5,281	5,052	7,042	8,950	8,113	8,614	5,704
DWI Arrests	40	40	53	49	54	63	70	91	95	127
<u>Inspections</u>										
Plan Review	NA	371	490	490	552	577	442	671	NA	666
Stop Work Orders	NA	19	21	21	11	16	8	8	NA	10
<b>Public works</b>										
Refuse collected (Tons)	2,883	2,981	2,799	2,845	2,711	2,704	2,415	2,178	2,150	2,015
Recycling Collected (Tons)	2,994	3,257	3,261	2,728	3,618	4,544	3,690	3,077	3,315	3,241
Street resurfacing (Miles)	2	1	2	2	2	2	2	1.7	0.82	0
<b>Health and welfare</b>										
Housing & Human Services										
Information/Referral Contacts	3,137	2,287	2,375	1,786	2,674	2,555	2,882	2,971	3,149	2,459
<b>Education</b>										
Student membership	1,817	1,846	1,848	1,845	1,873	1,906	1,941	2,010	2,069	2,122
<b>Parks, recreation, and cultural</b>										
<u>Parks &amp; Recreation</u>										
Special Events (2)	51	135	127	133	130	132	164	160	181	171
Class participants	NA	2,625	2,750	2,920	2,765	2,140	2,307	2,654	2,663	3,072
Room Reservations	6,920	6,280	6,027	6,132	6,150	6,548	6,205	5,982	6,569	6,455
Tennis Reservations	785	890	1,150	1,226	1,460	1,570	1,723	1,760	1,422	922
Youth Sports Participants	1,746	1,706	1,839	1,932	2,358	2,207	2,431	2,542	1,987	2,423
Adult Sports Teams	69	76	61	108	117	102	100	99	114	111
Teen Dance Participants	1,698	1,701	1,699	1,799	2,152	1,875	1,260	979	777	827
Teen Center Attendance	1,820	2,000	4,428	4,851	4,976	4,250	4,000	3,675	3,500	1,722
Summer Camps Offered	168	168	196	224	186	196	201	223	244	224
Summer Camp Participants	NA	3,289	3,562	3,769	4,073	4,211	4,258	4,163	5,002	5,000
Senior Center lunch meals served	2,504	2,789	3,028	2,360	1,760	1,824	1,588	1,255	928	519
<u>Library</u>										
Size of collection (all formats)	119,601	123,127	127,236	130,472	150,709	154,175	159,631	143,365	142,728	146,422
Total circulation of all materials	331,371	318,775	335,912	341,626	346,637	365,861	429,286	452,498	426,272	442,480
Total visits to library (door count)	245,766	222,999	212,322	192,222	202,002	203,743	219,831	232,379	283,773	307,466
Number of registered borrowers	21,375	21,503	22,428	23,003	25,470	25,155	23,357	25,263	28,395	24,056
Number of website visits/yr (3)	104,854	126,771	154,570	164,839	141,932	135,579	166,258	182,373	154,284	137,342
Number of programs/yr	286	295	351	357	312	297	345	298	603	518
Attendance at programs	9,419	10,691	10,976	11,998	11,321	12,773	14,235	11,710	20,345	15,761
<b>Community development</b>										
<u>Planning</u>										
Development Inquiries	NA	NA	NA	6,000	6,200	6,400	9,905	8,927	8,927	20,353
Plans Reviewed	NA	NA	NA	20	49	52	34	26	26	2
Code/ Policy Review	NA	NA	NA	25	18	35	72	NA	NA	NA
<u>Zoning</u>										
Development Inquiries	NA	NA	NA	1,500	2,200	2,000	2,570	2,100	2,100	NA
Permits/Plans Reviewed	NA	NA	NA	2,000	2,100	1,700	660	600	600	708
<u>Urban Forestry</u>										
Development Inquiries	NA	NA	NA	1,300	1,200	2,400	1,400	NA	NA	NA
Permits/Plans Reviewed	NA	NA	NA	56	75	443	192	NA	NA	NA
Trees Planted/removed/pruned	NA	NA	NA	369	897	859	825	NA	NA	NA
<b>Water</b>										
New connection applications	123	216	90	374	90	60	53	23	265	218
Water main breaks	151	102	102	100	172	112	141	118	148	93

Source: reported by individual departments

Notes:

NA - Not available.

(1) Part I crimes are defined as murder, rape, robbery, aggravated assault, burglary, grand larceny, auto theft, arson.

(2) Beginning in FY2003, special events includes the Senior Center and Cherry Hill Farmhouse.

(3) Website visits includes 5 months in FY2000.

TABLE 16

**CITY OF FALLS CHURCH, VIRGINIA**  
**Capital Asset Statistics by Function**  
**Last Ten Fiscal Years**

Function	Fiscal Year									
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>General government administration</b>										
City Hall	1	1	1	1	1	1	1	1	1	1
<b>Judicial administration (1)</b>										
<u>Court Services</u>										
Aurora House (Facility)	1	1	1	1	1	1	1	1	1	1
Aurora House Passenger Van	1	1	1	1	1	1	1	1	1	1
Court Services Passenger Van	NA	NA	NA	1	1	1	1	1	1	1
<b>Public safety (2)</b>										
Fire Stations (3)	1	1	1	1	1	1	1	1	1	1
<b>Public works</b>										
Streets -Miles/Lane Miles	32	32	32	32	32	32	32	32	32	32
Traffic signals	30	30	30	30	34	34	29	29	29	29
Streetlights	124	124	124	136	136	136	142	142	142	142
Refuse Trucks	4	4	4	4	5	5	5	5	5	0
<b>Education</b>										
School Buildings	3	3	3	4	4	4	4	4	4	4
<b>Parks, recreation, and cultural</b>										
<u>Recreation &amp; Parks</u>										
Community Center	1	1	1	1	1	1	1	1	1	1
Gage House/Senior Center	1	1	1	1	1	1	1	1	1	1
Cherry Hill Farmhouse & Barn	1	1	1	1	1	1	1	1	1	1
Neighborhood Parks	11	11	11	12	13	13	13	13	13	13
Tennis courts	10	10	10	10	10	10	10	10	10	10
Basketball courts	5	5	5	5	5	5	5	5	5	5
Vehicles	3	3	3	5	6	6	6	6	6	7
<u>Library</u>										
Library (Facility)	1	1	1	1	1	1	1	1	1	1
<b>Community development</b>										
<u>Urban Forestry</u>										
Vehicles	-	2	2	2	3	3	3	3	3	3
<b>Water</b>										
Water Mains (Miles)	486	489	489	491	496	497	497	497	497	500
Tanks	9	10	10	10	10	10	10	10	10	10
Pumps	28	28	28	28	28	29	29	29	29	29
Fire Hydrants	3,020	3,017	3,097	3,132	3,169	3,188	3,201	3,201	3,220	3,253
<b>Sewer</b>										
Sanitary Sewer Mains (Miles)	43	NA	43	NA	43	43	43	44	44	44
Sanitary Sewer Manholes	988	NA	998	NA	1,001	1,001	1,001	1,175	1,186	1,186

## Notes:

NA - Not available.

(1) The City Hall Serves as the City Court House

(2) The police station is located in City Hall

(3) Fire services are provided by Arlington County under contract

City of Falls Church  
[www.fallschurchva.gov](http://www.fallschurchva.gov)  
(703) 248-5100